The original documents are located in Box 31, folder "Revenue Sharing - Meeting with the President, March 13, 1975" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

JAMES M. CANNON - 3PM
Thursday, March 13

OCS Leasing Meeting with the
PRESIDENT

File
Jones

THE WHITE HOUSE

WASHINGTON

March 3, 1975

MEMORANDUM FOR: JIM CANNON

FROM: GLENN SCHLEEDE

SUBJECT: Sharing Outer Continental Shelf (OCS) Revenue ~~with~~ States

Enclosed at Tab A is a copy of our February 21, 1975 memorandum to the President on this subject.

We were notified by Jerry Jones that the President selected alternative 1 (page 6).

Enclosed at Tab B is a copy of a memorandum we have sent to Secretary Morton asking that a decision paper be developed to permit selection of the best alternative for sharing revenues.

Dick Dunham

cc: Jim Cavanaugh
Mike Duval

A

ACTION

THE WHITE HOUSE

WASHINGTON

February 21, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CAVANAUGH

SUBJECT: Sharing Outer Continental Shelf (OCS) Revenue with States

Secretary Morton's memorandum at Tab A proposes sharing a portion of OCS revenues with all states (with extra payments to coastal states) -- thus changing the current Administration position on this issue. Your advisers are divided as to the merits of this and other proposals for sharing OCS revenues.

This memorandum (a) reviews the current opposition to the Administration's accelerated OCS leasing program, (b) summarizes our current response to critics and opponents, (c) reviews the arguments for and against OCS revenue sharing proposals, and (d) presents for your decision the issues of whether and when there should be a change in position.

Current Situation

Issues Raised by Opposition. Briefly, the principal issues being raised by opponents of the Administration plans to accelerate OCS development involve (a) adequacy of government knowledge of the oil and gas resources being leased, (b) environmental impact, (c) liability for damages from spills, (d) fiscal burden of providing public facilities--roads, schools, hospitals, etc.--in onshore areas impacted by offshore development, (e) state and local government participation in the decision process, and (f) lack of development planning information that can be fit into local planning processes.

Response. The Administration's response has been that: (a) knowledge of the resources is adequate to assure a fair return to the government, (b) no decision to hold a lease sale in a particular area will be made until environmental studies are completed and acceptability of environmental risk determined, (c) a comprehensive oil spill liability bill will be proposed (about April 1, 1975),

(d) existing Federal programs can assist in mitigating local fiscal burden, (e) state and local governments and the public will be kept informed and have opportunity to comment on leasing plans, and (f) additional planning assistance for coastal states with potential offshore development is being provided through the coastal zone management grant program.

Confrontation. A decision by the Supreme Court favorable to the Federal government in the U.S. vs. Maine case involving ownership of the seabeds is expected in the spring. Other points of confrontation include (a) challenges during public hearings on Interior's draft impact statement and court suits under NEPA, (b) planned use of the Coastal Zone Management Act to force the Federal government to get coastal state approval of leasing plans, and (c) numerous bills which would require sharing of OCS revenue with coastal states, expand the Federal government role -- ranging from Federally funded exploratory drilling before leasing to a Federal oil and gas development corporation, and delay leasing until coastal zone planning is completed.

Current Position on Sharing of OCS Revenue. The Administration has opposed sharing OCS revenue with coastal states on grounds that (a) OCS resources belong to all the Nation and revenues should benefit all citizens, (b) OCS revenues shared with coastal states would have to be replaced in the Federal Treasury through additional taxes or result in greater deficits, and (c) onshore development from offshore activities will provide a tax base to permit raising revenue at the State or local level to finance public facilities. Following the news stories on February 7 that the Interior Department was reconsidering its opposition to sharing of OCS revenues, you approved reiteration of the Administration's position but asked for a reevaluation of the revenue sharing idea.

Principal Revenue Sharing Alternatives (including Rog Morton's)

All your advisers agree that, should you decide to propose revenue sharing, additional work is needed to select and develop the best approach. Three principal alternatives for sharing OCS revenues have emerged and there are others which need further analysis:

1. Share a portion of OCS revenues with those coastal states affected by OCS development. For example, a comprehensive OCS bill sponsored by Senator Jackson which passed the Senate last September called for deposit of 10% of Federal OCS revenues or 40¢ per barrel (whichever is greater) in a coastal state fund for use as grants for anticipated or actual economic, social and environmental impacts, including public facilities and services.

- Those favoring this alternative argue that it (a) links payments to potential need or impact, and (b) provides incentives for a State to look more favorably upon development off its coast.

- Arguments against it are that it (a) runs counter to the principle that OCS resources belong to all the Nation, (b) it is difficult to determine which states are or will be impacted so that sharing is fair, and (c) provides no incentive for inland states to support OCS leasing.

2. Earmark 37 1/2% of all OCS revenues for sharing with all States through General Revenue Sharing. (37 1/2% of revenues -- or about $50 million annually over the past five years -- is now given to states under current law. The same percentage applied to OCS revenues would involve several billion dollars.)

   - Principal arguments for this are that it (a) carries out the principle that OCS resources belong to all the Nation, (b) provides an incentive for all states to encourage OCS development, (c) provides a potential alternative to head off sharing only with coastal states, and (d) strengthens general revenue sharing, if revenues are significant.

   - Arguments against are that it (a) provides no special incentive to coastal states to reduce opposition to development off their coasts since all share, (b) complicates general revenue sharing if payments vary widely from year to year, (c) greatly exceeds needs related to energy development, and (d) probably does not reduce potential for litigation.

3. Provide a bonus of 5% of the value of all oil production (i.e., a royalty) to the coastal state through which the oil flows ashore, and then earmark the difference between this share and 37 1/2% of all OCS revenue for distribution to all states on a per capita basis. (Rog Morton's proposal)

   - Arguments made for this approach are that it (a) compensates for impact in coastal states, (b) provides a financial incentive for a coastal state to have oil come ashore in its state and locate refinery there, (c) reduces opposition to offshore development, (d) provides all states a visible incentive to favor OCS development, and (e) strengthens general revenue sharing if revenues are significant.

   - Arguments against it are that (a) variability in revenues could complicate general revenue sharing, (b) greatly exceeds needs related to energy development, and (c) probably does not reduce potential for litigation.

Issue: Do you wish to change your position on OCS revenue sharing?

The issue for your consideration is whether you want to propose at this time a change in current Administration position against sharing OCS revenue. Considerations bearing on this issue are:

1. Effectiveness in reducing opposition to OCS development. Those favoring some form of OCS revenue sharing believe that it would be a critical factor in reducing opposition to OCS development. It would (a) compensate for onshore public facility and service requirements and, (b) to the extent funding exceeds needs, provide an added incentive for supporting OCS development. Some opponents of OCS development -- principally at the state government level --are calling for sharing revenues.

   Others argue that (a) sharing funds addresses only one of the five major issues raised by opponents of OCS development (noted on page 1), and (b) the added revenue may be attractive to state and some local elected officials but many who will litigate against leasing and development will not be influenced (e.g., those at local rather than state level and those concerned about environmental impact or changes in a locality's economic structure and way of life).

2. Relationship of funds to needs resulting from OCS development. The principal funding needs identified by those favoring new funding are (a) public facilities -- (e.g., schools, hospitals, roads) -- and services which must be provided before there is an expanded tax base, and (b) potential economic or environmental impact from a spill -- which the Administration would cover under its proposed liability statute. A survey now underway indicates that there may be short term "front end" money problems for rural areas should they experience OCS development impact, but that this should not be a serious problem in other areas. The survey also shows that the "front end" money problem may be more serious in sparsely populated areas in the Northern Great Plains and Southwest that are faced with coal or oil shale development.

   Those opposing sharing of OCS revenue point out that most any alternative would provide funds greatly exceeding needs relating to offshore development. A preliminary OMB analysis indicates a maximum short term "fiscal burden" of $200 million over ten years. Sharing OCS revenue would involve several billion dollars and would be a long term answer to a short term problem. Revenue sharing would provide funding far ahead of actual needs which would not occur for another 2-10 years.

3. Alternative sources of funds. Two principal sources are:

   a. Taxation of onshore facilities and operations. Generally, the expanded economic base resulting from onshore development -- which tends to be capital rather than employee intensive -- should provide revenue sources more than offsetting State and local government costs. Two states (Texas and Louisiana) indicate that tax income has not exceeded costs but those states do not tax corporations (largely because of revenue from oil and gas development within the 3-mile limit).

b. Other Federal programs. Existing Federal programs should be adequate to meet most needs for Federal assistance; e.g., planning grants, rural development program loan guarantees, loans and grants. OMB points out that the 1976 budget includes 103 programs budgeted at $43 billion that can be applied toward meeting some energy induced impact. If state and existing Federal assistance leave a residual need, a new Federal response targeted to the specific need should be considered.

4. Federal budget impact. Opponents of earmarking OCS revenue for sharing point out that it would add to the Federal budget deficit and to the uncontrollable share of the budget. Others argue that the level of revenue expected from OCS leasing will not materialize unless some way is found to overcome opposition. Opponents also argue that a move to share OCS revenue now could result in a Congressional decision to require retroactive payments from OCS revenues collected since 1953 or encourage earmarking of other revenues.

5. Potential variability in OCS revenues. Interior estimates that bonuses paid when leases are sold and royalties paid when oil is produced will, together, result in Federal revenues in the range of $4 to $12 billion in each of the next five years -- if the previously announced schedule is maintained and there are not significant changes in emphasis on royalties vs. bonuses. Interior is considering the possibility of increasing royalties from the current 16 2/3% to 40% as a means to reduce front-end costs and encourage exploration. If this were done, bonus revenues would drop by 55% -- resulting in halving the total OCS revenues expected in near term years and increasing them in later years as oil is produced and royalties paid. OCS revenues have fluctuated widely over the past few years:

								Est.	
F.Y.	68	69	70	71	72	73	74	75	76
$B	1.0	0.4	0.2	1.1	0.3	4.0	6.7	2.7	8.0

Revenues are increasingly difficult to predict as much greater acreage is offered and leasing moves to areas that are less well known geologically. Variability in revenue available for sharing would make State and local planning difficult. However, variability could be reduced by an arrangement to deposit the earmarked share in a fund -- with payments to states set at a fixed annual level low enough to permit offsetting low and high revenue years.

6. Incentive for siting energy facilities. Those favoring sharing of revenues with states point out that formulas could be designed to provide a financial incentive for prompt siting of refineries and granting pipeline rights-of-way.

7. Potential for Congressional action. An important and potentially controlling consideration is the prospect for Congressional action to require sharing OCS revenue. The Senate Interior Committee will open hearings in mid-March on OCS bills, including Senator Jackson's comprehensive bill which passed the Senate last year by a vote of 64-23. The House Interior Committee has not yet scheduled hearings on the subject but is expected to do so shortly. The Congressional Relations staff believes the chances are better than even that the Congress will pass a bill this year requiring sharing of revenues -- at least with coastal states.

Alternatives, Recommendations and Decision:

______________ Morton, Zarb, Simon, Seidman, Friedersdorf	1. Decide now to propose sharing of revenue. Begin concentrated effort to identify and develop the best alternative sharing approach (say by April 1). Seek to arrange some quid pro quo before signalling a change in position. (There would be high risk that the change in position will become known publicly.)
______________ Lynn, Greenspan, Buchen, Cavanaugh	2. Maintain current position. Reiterate opposition to sharing of OCS revenues and act to communicate arguments against sharing. Indicate willingness to consider targeted assistance (including a new program) to meet actual needs for assistance that cannot be met reasonably from other sources. Consider proposing sharing of revenue only if it becomes clear that Congress will act to require sharing and a veto override appears likely or, in the longer run, a quid pro quo is identified that justifies sharing revenue. (OMB and Domestic Council staff work quietly with Interior and Treasury to identify and develop alternatives that might be proposed in this case.)

A

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

Memorandum

To: The President

Subject: OCS Revenue Sharing

We have embarked upon an accelerated leasing program on the Outer Continental Shelf to open up frontier oil and gas prospects and provide a badly needed supplement to domestic onshore production. The policy poses a dilemma in that its benefits--increased availability of secure oil and gas supplies--would accrue to the entire nation while the potential costs of development--oil spills and onshore demands for land, public facilities and public services--would be faced by the coastal States off whose shores the drilling and production actually take place.

These States are understandably troubled by the prospect of accelerated OCS leasing and development. In response to these concerns, I propose the following actions:

- -- maintain our commitment to enactment of the "Comprehensive Oil Pollution Liability and Compensation Act," currently being drafted by CEQ;
- -- continue to provide funds through the Coastal Zone Management Act for planning to mitigate onshore impacts;
- -- allocate 5 percent of the value of all OCS oil production to States on the basis of barrels of oil brought ashore;
- -- allocate 37.5 percent of all OCS revenues (including the bonus revenues and the federal royalty which is currently 16.67 percent of all production), less the special coastal State allotment, to all the States on the basis of population and with no strings attached.

Danger of oil spills is one of the environmental risks associated with OCS development. The liability legislation addresses the problem in terms of consolidating the mechanism for assessing damage claims against polluters and promptly compensating injured parties.

Funds provided under the Coastal Zone Management Act are available to all coastal States potentially affected by OCS development and are available early enough to facilitate necessary land use planning.

Sharing a portion of OCS revenues with all the States emphasizes the point that the rights to OCS oil and gas are a national asset and provides all States with a visible financial stake in prompt OCS development. The 37.5 percent figure has standing in that it is used for sharing revenues with the States from onshore leasing of mineral rights on Federal lands.

Sharing royalties with coastal States on the basis of barrels of OCS oil brought onshore focuses Federal assistance for onshore impacts at the time and place of their most likely occurrence.

All these actions, along with consultation with the States throughout the leasing and lease monitoring process, would provide a comprehensive response to the understandable concerns of the States. It is a balanced approach that builds from existing methods for dealing with the risk of oil spills and increased need for land use planning, recognizes the national character of OCS oil and gas resources, and provides for the potential onshore impacts that coastal States will face if we proceed with the accelerated leasing program.

I understand fully any misgivings you may have about taking actions that could further increase Federal deficits. However, the proposed efforts are an integral component of the overall task we face in getting the accelerated OCS leasing program going. Failure to respond to State concerns and gain their cooperation implies a postponement of Federal revenues and needed domestic energy supplies that far outstrips the cost of what I have proposed.

Rogers Morton
Secretary of the Interior

B

ADMINISTRATIVELY/CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

February 28, 1975

MEMORANDUM FOR: HONORABLE ROGERS C.B. MORTON

THROUGH: JIM CAVANAUGH

FROM: MIKE DUVAL

SUBJECT: OCS REVENUE SHARING

The President has reviewed this matter and decided that a concerted effort should be undertaken to develop the various alternatives so that a decision can be made on OCS revenue sharing.

Please develop a decision paper for the President in coordination with Treasury and other appropriate members of the ERC. I suggest we aim for a completed paper by March 10 which will give the President sufficient time to consider this prior to the March 17 Senate hearings.

Thanks. Let us know if we can help.

cc: Honorable William Simon
Honorable James Lynn
Honorable Frank Zarb

bcc: Jerry Jones
Bill Seidman
Alan Greenspan

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: March 12, 1975 Time: 8:00 p.m.

FOR ACTION:
Bill Baroody
Phil Buchen
Jim Cannon
Jack Marsh
Bill Seidman
Alan Greenspan
Max Friedersdorf

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, March 13, 1975 Time: 10:00a.m.

SUBJECT:

ACTION REQUESTED:

____ For Necessary Action

__X__ For Your Recommendations

____ Prepare Agenda and Brief

____ Draft Reply

__X__ For Your Comments

____ Draft Remarks

REMARKS:

We apologize for the short time return requested but as you will note the President's decision is needed by tomorrow in order for HEW to prepare testimony and draft legislation. Unfortunately, we received the memorandum at 8:00 p.m., March 12.

Thank you.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DECISION

MAR 12 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: HEW Support for Training of Biomedical and Behavioral Researchers

In the attached memorandum (Attachment A), Secretary Weinberger appeals your 1976 Budget decisions on Federal subsidies for training biomedical and behavioral researchers. The 1976 Budget called for:

-- in 1975, no new predoctoral support programs and a limit on institutional training grants--as opposed to individual fellowships--to "instances in which there is a need to create training environments that do not currently exist"; and

-- in 1976, support limited to 1,100 individual postdoctoral fellowships, and no new predoctoral support or institutional training grants.

HEW needs your decisions by Thursday, March 13, in order to draft legislation and prepare testimony for Senate hearings on March 17.

Background. The appropriations authorization for HEW programs that subsidize the training of biomedical and behavioral researchers expires June 30, 1975. This legislation was the response of Congress to the Administration's proposal in 1974 to eliminate completely all HEW support for training researchers.

The 1974 budget decision was based on the still valid concerns of:

-- the inequity of providing substantial Federal subsidies ($200 million annually) for students in the life sciences, but not in other fields;

-- the apparent surplus of qualified researchers as shown by increasing numbers of "approved but unfunded" research proposals;

-- the absence of specific programming objectives for training in relation to research needs; and

-- the existence of general predoctoral student support programs in the Office of Education.

While other agencies have gotten out of the support for training researchers, HEW has not. Attachment B contains a more detailed staff paper on this issue.

The 1976 Budget limit of 1,100 new fellowships was selected because it brings the number of trainees roughly in line with the number of new researchers supported annually on research grants. Individual fellowship support was chosen as consistent with the Administration's general higher education policy of concentrating support on students, with tuition to reflect institutional training costs. Moreover, postdoctoral support does not further increase the already excess supply of researchers. This approach also avoids institutions' becoming as directly dependent on Federal funds for faculty salaries.

Options: We see three options:

-- Option 1: Reaffirm the 1976 Budget decision--no new predoctoral training support in 1975 and 1976, 1,100 individual postdoctoral fellowships in 1976 and no institutional training grants.

-- Option 2: Fund training programs on the same basis as in prior years in both 1975 and 1976--HEW will determine levels of predoctoral and postdoctoral support and the extent to which institutional training grants are employed.

-- Option 3: Fund training programs on the same basis as in prior years in 1975 only. For 1976, limit Federal support to the 1,100 individual postdoctoral fellowships.

Considerations: We believe the following considerations bear upon your decision:

-- for 1975, Congress has apparently rejected your $32 million rescission proposal which reflected no new predoctoral support and limiting institutional training grants, and the appropriations will have to be spent;

-- Secretary Weinberger's memorandum indicates his desire to use predoctoral support and institutional training grants as "excellent mechanisms for having an influence over the flow of researchers into priority areas." The 1,100 postdoctoral awards limit "prevents me from managing our training efforts in the most efficient manner" and "... it is totally unrealistic to expect Congress to accept this restrictive approach";

-- in the past, HEW's "shortage specialties" have been practically the same as before the shortage concept was introduced. This reflects lack of agreement on a meaningful concept of "shortages"; and

-- the supply of Ph.D. life scientists is growing at an unprecedented rate. The Labor Department has tentatively forecast a surplus of Ph.D.'s in the life sciences for the 1976 - 1980 period ranging from 15% to 25%.

Recommendation: We recommend that you approve Option 3, largely reflecting:

-- a desire to cooperate, in light of the rejection by Congress of the Administration's rescission proposals affecting support of research training;

-- the program merits, i.e., the considerations of equity and supply, underlying the 1976 budget are still valid; and

-- submission of an Administration bill for 1976 may force a discussion in Congress of the issue on the substantive program merits and equity considerations.

Decision:

/ / Option 1: Reaffirm the training decisions announced in the 1976 Budget.

/ / Option 2: Allow HEW discretion in 1975 and 1976 within the final appropriation levels (HEW request).

/X/ Option 3: Allow HEW discretion within the 1975 appropriation level. In 1976, reaffirm the training decision to limit support of 1,100 postdoctoral fellowships (OMB recommendation).

James T. Lynn
Director

Attachments

Attachment A

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

MAR 5 1975

MEMORANDUM FOR THE PRESIDENT

The Department of Health, Education and Welfare's biomedical and behavioral research training programs are authorized by The National Research Service Award Act. This Act, which was enacted in July 1974, authorizes appropriations in only FY 1975 for pre- and post-doctoral fellowships and institutional awards. Consequently, the Department will be requesting an extension of the appropriation authorization for FY 1976 and beyond. Mr. Ash's legislative directive to the Department specified that we seek amendments in this Act to support only post-doctoral research fellows through national competition. This legislative directive was consistent with current FY 1975 budget policy to eliminate pre-doctoral fellowships and to limit new institutional awards, and with the FY 1976 budget proposal of making new awards only for 1100 post-doctoral fellows.

While I agree that we should restrict the Federal effort in research training, the OMB directive seriously damages the Department's ability to manage the programs efficiently and to assure the necessary number of qualified biomedical and behavioral researchers. Over the last few years, I have been restructuring the Department's research training support. The Department, particularly through the National Institutes of Health, has emphasized post-doctoral fellowships and increasingly has targeted institutional awards and pre-doctoral fellowships in those research areas in short supply.

This redirection was in response to our perception of changing research manpower needs. In the 1960's the rapid growth in research grants necessitated substantial and wide-spread institutional research training development awards. While an insufficient total number of researchers is no longer the problem, we believe some institutional awards are still needed to develop research training capacity in new and very promising research areas and in areas of chronic short supply of qualified researchers such as epidemiology, genetics and nutritional science. These are crucial areas for a comprehensive Federal research effort. However, as they are less attractive to young researchers and training institutions, special Federal institutional awards are warranted. Likewise, we believe that pre-doctoral training support is an important component of the total research training program. Since the Alcohol, Drug Abuse and Mental Health Administration supports pre-doctoral fellows for their thesis research, such support provides an excellent mechanism for having an influence over the flow of researchers into priority areas.

Institutional awards and pre-doctoral fellowships should be directed only for those research areas for which it can be shown that additional training capacity is needed. Post-doctoral fellowships should not be so restricted. They should be awarded on merit through national competition with priority given to shortage areas. On this latter point we have no disagreement with the OMB guidance in any respect.

While we have no argument in general with OMB's objective to restrict substantially pre-doctoral training and institutional awards, their request that we submit to Congress legislative amendments that would limit research training awards only to post-doctoral fellowships and the related budget decision to restrict new awards in FY 1976 to post-doctoral fellows prevents me from managing our training efforts in the most efficient manner. In addition, it is totally unrealistic to expect the Congress to accept this restrictive approach. Accordingly, I request that you permit the Department to submit amendments that allow institutional awards and pre-doctoral fellowships limited to those scientific areas in which existing training capacity is substantially inadequate and in which we cannot expect rapid improvement without Federal support.

Both the legislative and appropriations committee in Congress have indicated continuously their intent to maintain such funding. If we do not present a realistic position, we are unlikely to make progress toward agreed objectives. The Senate Subcommittee on Health has invited us to testify on March 11 as to our position on the extension of this legislation. I believe my approach represents a method of constraining the Federal role and Federal training expenditures.

Finally, I request that as a result of this legislative decision the Department be permitted to allocate the FY 1976 budget between the various research training programs in order to assure the most efficient use of Federal dollars. I emphasize that no additional funds are being requested.

Cap Weinberger
Secretary

Subject: Biomedical and Behavioral Research Training

Background. In the 1974 Budget, the Administration proposed to phase out Federal support for the training of biomedical and behavioral researchers by the National Institutes of Health (NIH) and the Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA). This decision was based on several considerations, including:

-- the inequity of providing Federal subsidies for students in the biomedical or behavioral sciences while graduate students in other fields do not benefit from special Federal support;

-- the lack of programming objectives for training, e.g., need or "shortages" in relation to research plans;

-- the inappropriateness of federally subsidizing medical clinical specialty training which increases personal income potential of physician specialists, when the Federal priority is on primary care;

-- the apparently adequate supply of research scientists as shown by the continuing surplus of "approved, but unfunded" research proposals; and

-- the existence of general graduate student support programs in the Office of Education.

Training programs were begun in 1947, but expanded sharply in the 1960s. Because of their large institutional support components, they are considered vital by most research institutions and medical schools. Since 1967, NIH and ADAMHA research training support has averaged about $200 million annually. Support is made to the pre- and post-Ph.D and M.D. levels in all fields--life sciences, physical sciences, social sciences and the arts and the humanities. Generally, it is concentrated in life sciences disciplines and takes the form of institutional grants or individual fellowships.

Congress responded to the Administration proposal by introducing specific mandatory authorizing legislation for the research training programs. Ostensibly, in an attempt to "head off" the legislation, HEW initiated a new more limited program of postdoctoral individual fellowships in designated "shortage" specialties. The selection of individual postdoctoral support was based on the existence of other sources of predoctoral student support and the lower attrition rate of students from research careers, once they have made a career commitment signified by a doctorate. Individual support is consistent with the Administration's higher education policy of concentrating support on students; it costs less than institutional awards; and it maintains greater Federal flexibility, since institutions do not become dependent on these funds directly for faculty salaries.

Congress was, however, not deterred by the new fellowship program and enacted the "National Research Service Award Act," which was approved on July 12, 1974. It authorized pre- and postdoctoral individual and institutional support for 1975 only and added a number of program reforms such as a three-year limit on support and a service or payback requirement. The Act also limited the award of training grants or fellowships after July 1, 1975, to specialty fields designated as "in need of training" by the National Academy of Science according to a required study of the research manpower situation.

Key Facts. The 1976 Budget proposes to limit support in 1975 to postdoctoral fellowships, i.e., no more predoctoral training grants, and, in 1976, to limit the program to 1,100 postdoctoral fellowships as a "national prize" program for the most meritorious applicants, as determined through nation-wide competition. In 1975, Congress added $32 million in research training funds to the Administration's request. Although the Administration requested Congress to rescind these increases, Congress has declined to do so, thereby forcing the obligation of these funds. HEW was advised of the budget decision not to make new predoctoral training support and to limit institutional, as opposed to individual fellowship awards, but Secretary Weinberger will apparently appeal the predoctoral and institutional awards decisions.

The National Research Service Award Act expires on June 30, 1975. The National Academy of Science's study is behind schedule and it will probably merely endorse the old programs, by field, as being in need of training. The 1976 legislative program includes a proposal to modify the legislation in accord with the Administration's budget proposal for a national program of 1,100 postdoctoral awards.

Current Position. No new arguments have been advanced to rationalize the need or appropriateness of Federal research training support. In fact, recent data about the research scientist supply indicate that the supply of biomedical researchers is growing significantly, despite the decline in NIH support from $171 million in 1969 to $152 million in 1974. While graduate enrollments in the sciences and engineering have declined in total from 1971 to 1973, graduate enrollment in the life sciences has increased and is projected to increase at a faster rate in 1974. The attached table shows some of the relevant indicators.

At a review of Federal research and development programs for the 1976 budget, the Science Advisor acknowledged the budgetary pressures for research funding that are created by subsidizing the growth in the supply of scientists. He also considered it appropriate to reassess the need for further Federal research training subsidies in view of the apparently ample supply of researchers in the life and social sciences.

In the near future, HEW will be presenting legislation to extend and modify expiring research training laws and possibly a budgetary proposal to reallocate the increased 1975 funds for institutional and predoctoral support. In view of the already severe budgetary pressures on the NIH and ADAMHA research budgets, and the promising picture of the supply of researchers, the effect of perpetuating such subsidies would be to increase the supply of researchers further and thereby make the future problem worse or to supplant private expenditures by individual students with Federal subsidies.

Attachment

Indicators of the Supply of Research Scientists

	1969	1970	1971	1972	1973	19
U.S. Medical School Graduates	8,059	8,367	8,974	9,551	10,391	11,5
Ph.D's Granted in Sciences						
All Sciences	15,993	17,822	19,005	19,035	18,938	N/
Life Sciences	4,116	4,564	5,051	4,984	5,068	N/
Number of Biomedical Scientists	58,800	62,300	66,800	75,661	79,800	N/
Medical School Faculty Salaries:						
Clinical Departments:						
Professor	N/A	N/A	$33,500	$35,200	$36,900	$39,
Associate Professor			27,500	29,100	30,500	32,
Assistant Professor			23,100	24,900	26,000	26,
Average, all ranks			27,300	29,100	30,300	32,
Nonclinical Departments:						
Professor			23,600	24,400	25,700	28,
Associate Professor			19,000	19,500	20,400	22,
Assistant Professor			15,500	16,000	16,500	17,
Average, all ranks			19,100	19,600	20,300	23,
New Approved NIH Research						
Grants						
Funded (Percent)	68%	51%	50%	57%	37%	
Unfunded (Percent)	32%	49%	50%	43%	63%	

[3/13/75]

How to get there and

Can we get it
If we don't make
some amendments w/ the states

Would prefer to keep
everything w/ [illegible]

Great lakes - divided
between states ?

Timing Problem - Supreme Court
decision before hearings

momentum to make policy
decision while any
[illegible] might lose

Roy

If we can focus on something that would block us, then be prepared to move

S.C. decision

delay

~~How ?? until S.C.~~

Refuse was obstacle

~~Sue (e.g. Come up with 4 Better plan)~~

F = { Ask for Fed support on sales
Support on state
Balance among states

[3/13/75]

On OCS Revenue Sharing

The President said he favors more percentage of the states.

Give it to the Governors and require them to give it to those areas that are in need.

The major concerns are

Impact on the state payments among states.

Table 1

COMPARISON OF OCS REVENUE SHARING OPTIONS

SUMMARY

	IMPACT AID		IMPACT AID AND FORMULA GRANTS TO COASTAL STATES		IMPACT AID & FORMULA GRANTS TO ALL STATES	FORMULA GRANTS TO COASTAL AND ALL STATES	
	#1	#2	#3		#5	#6	#7
	$600M Targeted Needs Program	Allocation with Grants and Loans Targeted and Limited to Need	.0% Shared in Proportion to Impacts (Senator Jackson S.521)	10% for Impact Grants plus 5% Royalty to Coastal States	Targeted Needs + 37-1/2% of Royalties	[illegible] to Coastal States + Sharing with all States to Total 37-1/2% (Sec. Morton)	Same as #6 Plus $500M Nationwide Impact Fund
PROGRAMMATIC CRITERIA							
Shares enough at time of need	Yes	Yes	Yes	Yes	Yes	No	Possibly no
Size of sharing in relation to need	Equal	Equal	8 times	17 times	12 times	30 times	30 times
Triggered by actual need	Yes	Yes	Not required	No	In part, yes, largely no	No	In part, yes, largely no
Assurance of receipts by impacted localities	Yes	Yes	No	No	Yes	No	Possibly
Subsidizes state taxpayer at expense of Federal	No	No	Substantially	Greatly	Substantially	Greatly	Greatly
Creates revenue sharing instabilities or sharp declines	No	No	Severe	Severe	No	Severe	Severe
STRATEGIC CRITERIA							
Coastal opposition:							
- Reduces state political opposition	Yes, but demand for sharing not met	Yes, but demand for sharing not met	Yes	Yes	Yes	Yes	Yes
- Reduces local political opposition	Yes	Yes	Not necessarily	Not necessarily	Yes	Probably no	Not necessarily
Reduces environmental political opposition	Slightly	Slightly	No	No, may increase	Slightly	No, may increase	No, may increase
Congressional opposition and risks:							
- Risk of being increased by Congress	Yes, at low cost	Yes, at low cost	Yes, at high cost	Yes, at high cost	Yes, at high cost	No	No
- Helps avoid legislation delaying OCS development	Possibly	Possibly	No	No	Possibly	Possibly	Possibly
Type of precedent for inland energy impact problems	Desirable	Desirable	Undesirable	Undesirable	Possibly undesirable	Undesirable	Undesirable
BUDGETARY CRITERIA							
Total proposed 11-year costs	$0.6B	$0.6B	$5.0B	$10B	$7.1B	$17.8B	$17.8B
Year of initial outlays	1978	1978	1975	1975	1975	1975	1975

[Table 1 3/13/75]

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THE WHITE HOUSE

WASHINGTON

March 13, 1975

Rev — Low 7, To States, by mean to give it to those areas impacted.

MEETING ON OCS REVENUE SHARING

Thursday, March 13, 1975
3:30 p.m. (30 minutes)
Oval Office

FROM: Jim Cannon

I. PURPOSE

To discuss alternatives for sharing Outer Continental Shelf (OCS) revenue and the position that Secretary Morton should take on this issue during comprehensive hearings on OCS legislation which begin tomorrow in the Senate Interior Committee.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: This meeting was requested by Jim Lynn and Rog Morton. There are three issues that warrant attention during the meeting:

- What substantive OCS revenue sharing proposal should be put forward by the Administration?
- When and by whom should it be announced?
- How should the issues be handled by Rog Morton when he testifies tomorrow?

1. What should the Administration propose?
Your decision on a February 21, 1975 memorandum on this subject from Jim Cavanaugh (Tab I A) indicated that (a) the Administration position of opposition to sharing of revenue should be changed, (b) that the best alternative be identified and developed by about April 1, and (c) a quid pro quo should be sought before signalling a change in position.

Secretary Morton's staff has explored a series of alternative proposals (Tab I C). Jim Lynn's staff has also done a study of the issue covering seven wide ranging alternatives (Tab I B). Jim Lynn's memo at Tab I summarizes the complex alternatives and requests your decision. The alternatives range from targeted categorical grants and loans (costing \$200 to \$600 million over 10 years) to sharing of 37 1/2% of all OCS revenues (amounting to about \$18 billion).

I do not believe that adequate work has been done to permit selection of a specific revenue sharing proposal. I recommend that you use the meeting to discuss, and perhaps describe, general principles which would help guide the development of a specific proposal. For example:

- Should the Administration try to limit assistance to a categorical grant or loan program for public facilities onshore that are required because of OCS development (strongly favored by Lynn)?
- Should payments instead be genuine sharing of OCS revenues with coastal states (by formula and non-necessarily related to impact?
- Should sharing also extend to inland states -- and be used to strengthen general revenue sharing?

2. Who should announce decision and when?
I believe a change in position on the OCS revenue sharing issue warrants Presidential announcement, with carefully thought-through timing.

3. What position should Rog take in tomorrow's hearings?
The six bills being considered are comprehensive and there will be plenty to cover in testimony. On the revenue sharing question, Rog can announce that you have directed that the issue be studied intensely and the current Administration position opposing sharing of OCS revenue is under review.

B. Participants:

Rog Morton, Jim Lynn, Frank Zarb, Jim Cannon and Paul O'Neill. Staff: Mike Duval

C. Press Plan: Press Office has announced the meeting but not the specific subject.

III. TALKING POINTS

(Discussion of OMB and Interior recommendations)

- I want an opportunity to consider this more broadly, in the context of other energy and general revenue sharing decisions.
- When I decide on a specific proposal, I want to think through carefully when and how I announce it.
- I understand the Supreme Court may decide the U.S. vs. Maine case within the next month, and certainly by the end of June.

Also, we are almost certain to win. We could have more political impact by announcing a sharing proposal after winning the case than we would by playing the chip now.

- Rog, in your testimony tomorrow, you should announce that we are reviewing our position on OCS revenue sharing, that I have not made a decision, and that the alternatives include no sharing, sharing with coastal states, and sharing with all states.

I

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 12 1975

MEMORANDUM TO THE PRESIDENT

FROM: Jim Lynn

SUBJECT: Possible sharing of Outer Continental Shelf revenues with the States

Issue:

In response to Mr. Cavanaugh's decision memorandum of February 21 (Tab A), you directed that an immediate effort should be undertaken to identify and develop the alternatives for final selection, and that an acceptable quid pro quo should be sought for the proposal.

This memorandum and its attachments (a) present the findings from the review of alternatives, (b) present the recommendations of your advisers, and (c) request your decision on the revenue sharing issue. Your early decision is requested because Senate Interior Committee hearings on this subject are scheduled for Friday, March 14.

Context of decision: Concern by coastal States, local officials, and environmental groups about OCS development is based on -

1. possible environmental damages, including oil spills;

2. esthetic impacts, including possible disorderly development; and

3. economic effects, including possible injury to existing industry, and the burden of providing additional public services.

They are also concerned that -

4. the Government's leasing decisions are being made without adequate Government exploration to develop sufficient knowledge about the value of resources;

5. the Government is not clearly separating decisions to lease from decisions to develop;

6. the current process does not provide information for State or local government planning nor for their input into Federal and industry decisions on how to develop the OCS. They do have an input at the leasing stage.

To address points 1-3, the Administration has already proposed increased planning grants to States under the Coastal Zone Management Act and is developing a comprehensive oil spill liability bill. Government exploration (point 4) would be tremendously expensive and inefficient since the industry already has the necessary expertise and spreads the costs and risks among many companies. Interior can obtain industry information. Initiating Government exploration could delay OCS development by several years.

Interior is currently looking at points 5 and 6 at the urging of the CEQ and EPA. Requiring a company to prepare a development plan subsequent to leasing but prior to development, and then providing States, localities and environmental groups opportunity to influence and react to the development plan would ameliorate what now appears to be their greatest concern. This can be done under existing law.

In the total context, assuming the environmental and process concerns are taken care of, revenue sharing may become a lesser issue.

This Administration, as have past Administrations, opposed coastal States sharing of OCS revenues on the grounds that -

- OCS revenues belong to all of the Nation;
- sharing OCS revenues would require compensating adjustments in the Federal budget; i.e. increased borrowing or higher taxes;

. the adverse impact (need) in any given coastal area bears little direct relationship to the revenues generated;

. onshore development related to OCS activities provides increased tax base for State and local governments; and

. existing Federal programs can provide financial assistance to States.

Additional background is set forth in Mr. Cavanaugh's memorandum of February 21, 1975 (Tab A).

Summary of analysis: Against the above background we have analyzed several options for sharing OCS revenues with State and local governments. The study reports are attached at Tab B and C.

We have defined two "need" levels - $600 M total cost and $200 M residual need.

Our studies indicate that the total cost of providing public facilities related to the future development of the OCS is about $600 million, and these funds will be required between approximately 1980 and 1985. Most States and localities should be able to meet these costs through normal financing channels such as bonding, in addition to taxing OCS production that comes through their area. About $200 million is our maximum estimate of that portion of total facilities cost that States and localities may not be able to finance without Federal assistance in the form of loans or grants.

Need or economic impact are not the sole reasons underlying proposals for sharing OCS revenues. Some believe that sharing of revenues with States will be an effective means of increasing support for OCS leasing and development.

Our analysis of the various options are summarized in table 1. Their Federal costs range from $200 M to $18 B over an 11-year period, 1975-1985. Total OCS revenues during this period are estimated to be $47 B but could be higher or lower. Several of the options would continue revenue sharing beyond this period.

The options are developed from three basic approaches to revenue sharing:

1. Impact aid to finance public facilities related to OCS development. This can be grants, loans or both.

2. Unrestricted formula grants to coastal States to use as they wish.

3. Unrestricted formula grants to all of the States to provide an "ownership" stake in OCS development and possibly mitigate adverse effects of inland energy development.

All three approaches provide incentive for States to support OCS leasing. The formula approaches provide greater incentive than the impact aid approach. The formula approaches provide minimum direct Federal role and are consistent with our posture on General Revenue Sharing.

Only the impact aid approach can assure that Federal funds will be available to meet impacts where they occur and when they occur, but it implies a greater degree of direct Federal responsibility for financing them than do the other options. Impact aid outlays would not occur until about 1978 while the formula grant outlays begin immediately.

The unrestricted formula grants to coastal States would probably be preferred by coastal State governments because of the flexibility allowed, but they would remove more funds from Treasury than necessary to meet needs. Bonus sharing would put funds in State hands sooner than most OCS development-generated needs can be identified. In new areas, production or royalty shares do not become available until after onshore investments must be made. The unrestricted formula grants to all States would be preferred by inland State governments, and may have some mitigating effect on impacts of inland energy developments, but they have the same timing and Federal cost-related-to-need characteristics as formula grants to coastal States. It would be less acceptable to coastal States unless the coastal States got a special break on the formula.

Seven specific options have been identified by Interior and OMB and compared in the attached staff papers (Tabs B and C). While various percentages for formula grants are specified in several of the options, any percentage could be used. The options are summarized as follows.

Impact aid

Categorical grant w/ all the bureaucracy.

- Option #1: ($200 M - $600 M) For six years, $100 M per year of OCS revenues would be deposited in a special account. Fund would provide 50% grant and 50% loan to communities for public facilities cost whenever impact occurs. Fund would be available for 15 years.

- Option #2: ($200 M - $1.1 B) 2½% of OCS revenues would be deposited in a special fund for 10 years and available for 15 years. These amounts would be allocated equally among the 22 coastal States but the communities would receive grants and loans only as needed to meet public facilities cost.

Based on oil that goes ashore

Impact aid plus formula grants to coastal States

Whether need it or not

- Option #3: ($5 B) 10% of OCS revenues or $0.40 per barrel, whichever is greater, would be deposited in a special account. Funds would be granted to coastal States in proportion to environmental, social and economic impacts of OCS activities with consideration also given to OCS acreage leased and volume of production.

- Option #4: ($10 B) (1) 10% of OCS revenues would be granted to coastal States for impact aid, and (2) 5% of the value of OCS oil and gas which is brought ashore within a State's boundary would be granted as an extra incentive.

Impact aid to coastal States plus formula grants for all States

- Option #5: ($6.8 B) (1) Same as Option #1 (impact aid), plus (2) 37½% of OCS royalties granted to all States based on population for an "ownership" stake.

Formula grants to both coastal States and all States

- Option #6: ($17.9 B) (1) 5% of the value of OCS production would be allocated to coastal States on the basis of barrels of oil brought ashore, and (2) 37½% of all OCS revenues, less the coastal States production-based allocation, would be allocated to all of the States based on population for an "ownership" stake.

- Option #7: ($17.8 B) Same as Option #6 plus grants for nation-wide energy impact aid for OCS coal, oil shale, and other energy development on Federal lands.

Congressional Attitudes

The known congressional attitudes to date reveal a committee jurisdiction issue with the Commerce Committees handling NOAA tending to support planning and impact aid, and Interior committees tending to prefer formula distribution.

Senator Hollings strongly opposes formula revenue sharing and says that "all of the signals from States themselves clearly oppose the /formula grant/ revenue-sharing concept." He advocates impact aid as in his bill, S. 586, (with support from Kennedy, Mathias, Tunney and Williams) and says this is supported by a policy statement of the National Governor's Conference.

Congressman Forsythe (H.R. 3637) supports impact aid grants based on need to coastal States. Funds would come from the Treasury rather than OCS revenues.

Senator Magnuson has orally advised that he favors impact aid to coastal States and opposes formula grant revenue sharing.

Senator Jackson (with Johnston, Metcalf and Randolph)(S. 521) support "comprehensive assistance in order to assure adequate protection of the onshore social, economic and environmental conditions of the coastal zone." The bill requires development of a grant formula by the Secretary of the Interior. Senator Johnston has orally advised that he prefers a legislative formula to distribute funds to coastal States, plus returning 5% of the value of oil brought ashore to the receiving State (first half of option #6). He does not support sharing with all States.

Senator Stevens (S. 130) advocates formula grants (25% to coastal States and 25% to inland States).

Recommendations

Rog Morton recommends Option #6.

Bill Simon supports distribution of 5% of the oil and gas production value with those coastal States where it is brought ashore (the first half of option #6 only). He does not support that part of option #6 which allocates the balance of the revenues to all States.

Frank Zarb recommends Option #2.

Jim Lynn prefers not to establish any fund because of appropriation and impoundment control problems. However, if a fund must be established, he would recommend option #1 or option #2 - impact aid. Can compromise upward later.

Max Friedersdorf recommends formula sharing with coastal States on the basis of value of oil brought ashore plus some additional sharing with coastal States only (part of option #6).

Bill Seidman recommends impact aid to coastal States plus some formula sharing with Coastal States (option #4).

Alan Greenspan recommends Option #2.

Bob White (NOAA) favors impact aid based on need not only for OCS development but when there is a production close-down. He prefers this be done through annual appropriations from general revenues. The option closest to his position is #3.

Phil Buchen recommends Option #__.

Jim Cannon recommends Option #__.

A

ACTION

THE WHITE HOUSE

WASHINGTON

February 21, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CAVANAUGH

SUBJECT: Sharing Outer Continental Shelf (OCS) Revenue with States

Secretary Morton's memorandum at Tab A proposes sharing a portion of OCS revenues with all states (with extra payments to coastal states) -- thus changing the current Administration position on this issue. Your advisers are divided as to the merits of this and other proposals for sharing OCS revenues.

This memorandum (a) reviews the current opposition to the Administration's accelerated OCS leasing program, (b) summarizes our current response to critics and opponents, (c) reviews the arguments for and against OCS revenue sharing proposals, and (d) presents for your decision the issues of whether and when there should be a change in position.

Current Situation

Issues Raised by Opposition. Briefly, the principal issues being raised by opponents of the Administration plans to accelerate OCS development involve (a) adequacy of government knowledge of the oil and gas resources being leased, (b) environmental impact, (c) liability for damages from spills, (d) fiscal burden of providing public facilities--roads, schools, hospitals, etc.--in onshore areas impacted by offshore development, (e) state and local government participation in the decision process, and (f) lack of development planning information that can be fit into local planning processes.

Response. The Administration's response has been that: (a) knowledge of the resources is adequate to assure a fair return to the government, (b) no decision to hold a lease sale in a particular area will be made until environmental studies are completed and acceptability of environmental risk determined, (c) a comprehensive oil spill liability bill will be proposed (about April 1, 1975),

(d) existing Federal programs can assist in mitigating local fiscal burden, (e) state and local governments and the public will be kept informed and have opportunity to comment on leasing plans, and (f) additional planning assistance for coastal states with potential offshore development is being provided through the coastal zone management grant program.

Confrontation. A decision by the Supreme Court favorable to the Federal government in the U.S. vs. Maine case involving ownership of the seabeds is expected in the spring. Other points of confrontation include (a) challenges during public hearings on Interior's draft impact statement and court suits under NEPA, (b) planned use of the Coastal Zone Management Act to force the Federal government to get coastal state approval of leasing plans, and (c) numerous bills which would require sharing of OCS revenue with coastal states, expand the Federal government role -- ranging from Federally funded exploratory drilling before leasing to a Federal oil and gas development corporation, and delay leasing until coastal zone planning is completed.

Current Position on Sharing of OCS Revenue. The Administration has opposed sharing OCS revenue with coastal states on grounds that (a) OCS resources belong to all the Nation and revenues should benefit all citizens, (b) OCS revenues shared with coastal states would have to be replaced in the Federal Treasury through additional taxes or result in greater deficits, and (c) onshore development from offshore activities will provide a tax base to permit raising revenue at the State or local level to finance public facilities. Following the news stories on February 7 that the Interior Department was reconsidering its opposition to sharing of OCS revenues, you approved reiteration of the Administration's position but asked for a reevaluation of the revenue sharing idea.

Principal Revenue Sharing Alternatives (including Rog Morton's)

All your advisers agree that, should you decide to propose revenue sharing, additional work is needed to select and develop the best approach. Three principal alternatives for sharing OCS revenues have emerged and there are others which need further analysis:

1. Share a portion of OCS revenues with those coastal states affected by OCS development. For example, a comprehensive OCS bill sponsored by Senator Jackson which passed the Senate last September called for deposit of 10% of Federal OCS revenues or 40¢ per barrel (whichever is greater) in a coastal state fund for use as grants for anticipated or actual economic, social and environmental impacts, including public facilities and services.

- Those favoring this alternative argue that it (a) links payments to potential need or impact, and (b) provides incentives for a State to look more favorably upon development off its coast.

- Arguments against it are that it (a) runs counter to the principle that OCS resources belong to all the Nation, (b) it is difficult to determine which states are or will be impacted so that sharing is fair, and (c) provides no incentive for inland states to support OCS leasing.

2. Earmark 37 1/2% of all OCS revenues for sharing with all States through General Revenue Sharing. (37 1/2% of revenues -- or about $50 million annually over the past five years -- is now given to states under current law. The same percentage applied to OCS revenues would involve several billion dollars.)

   - Principal arguments for this are that it (a) carries out the principle that OCS resources belong to all the Nation, (b) provides an incentive for all states to encourage OCS development, (c) provides a potential alternative to head off sharing only with coastal states, and (d) strengthens general revenue sharing, if revenues are significant.

   - Arguments against are that it (a) provides no special incentive to coastal states to reduce opposition to development off their coasts since all share, (b) complicates general revenue sharing if payments vary widely from year to year, (c) greatly exceeds needs related to energy development, and (d) probably does not reduce potential for litigation.

3. Provide a bonus of 5% of the value of all oil production (i.e., a royalty) to the coastal state through which the oil flows ashore, and then earmark the difference between this share and 37 1/2% of all OCS revenue for distribution to all states on a per capita basis. (Rog Morton's proposal)

   - Arguments made for this approach are that it (a) compensates for impact in coastal states, (b) provides a financial incentive for a coastal state to have oil come ashore in its state and locate refinery there, (c) reduces opposition to offshore development, (d) provides all states a visible incentive to favor OCS development, and (e) strengthens general revenue sharing if revenues are significant.

   - Arguments against it are that (a) variability in revenues could complicate general revenue sharing, (b) greatly exceeds needs related to energy development, and (c) probably does not reduce potential for litigation.

Issue: Do you wish to change your position on OCS revenue sharing?

The issue for your consideration is whether you want to propose at this time a change in current Administration position against sharing OCS revenue. Considerations bearing on this issue are:

1. Effectiveness in reducing opposition to OCS development. Those favoring some form of OCS revenue sharing believe that it would be a critical factor in reducing opposition to OCS development. It would (a) compensate for onshore public facility and service requirements and, (b) to the extent funding exceeds needs, provide an added incentive for supporting OCS development. Some opponents of OCS development -- principally at the state government level -- are calling for sharing revenues.

   Others argue that (a) sharing funds addresses only one of the five major issues raised by opponents of OCS development (noted on page 1), and (b) the added revenue may be attractive to state and some local elected officials but many who will litigate against leasing and development will not be influenced (e.g., those at local rather than state level and those concerned about environmental impact or changes in a locality's economic structure and way of life).

2. Relationship of funds to needs resulting from OCS development. The principal funding needs identified by those favoring new funding are (a) public facilities -- (e.g., schools, hospitals, roads) -- and services which must be provided before there is an expanded tax base, and (b) potential economic or environmental impact from a spill -- which the Administration would cover under its proposed liability statute. A survey now underway indicates that there may be short term "front end" money problems for rural areas should they experience OCS development impact, but that this should not be a serious problem in other areas. The survey also shows that the "front end" money problem may be more serious in sparsely populated areas in the Northern Great Plains and Southwest that are faced with coal or oil shale development.

   Those opposing sharing of OCS revenue point out that most any alternative would provide funds greatly exceeding needs relating to offshore development. A preliminary OMB analysis indicates a maximum short term "fiscal burden" of $200 million over ten years. Sharing OCS revenue would involve several billion dollars and would be a long term answer to a short term problem. Revenue sharing would provide funding far ahead of actual needs which would not occur for another 2-10 years.

3. Alternative sources of funds. Two principal sources are:

   a. Taxation of onshore facilities and operations. Generally, the expanded economic base resulting from onshore development -- which tends to be capital rather than employee intensive -- should provide revenue sources more than offsetting State and local government costs. Two states (Texas and Louisiana) indicate that tax income has not exceeded costs but those states do not tax corporations (largely because of revenue from oil and gas development within the 3-mile limit).

b. Other Federal programs. Existing Federal programs should be adequate to meet most needs for Federal assistance; e.g., planning grants, rural development program loan guarantees, loans and grants. OMB points out that the 1976 budget includes 103 programs budgeted at $43 billion that can be applied toward meeting some energy induced impact. If state and existing Federal assistance leave a residual need, a new Federal response targeted to the specific need should be considered.

4. Federal budget impact. Opponents of earmarking OCS revenue for sharing point out that it would add to the Federal budget deficit and to the uncontrollable share of the budget. Others argue that the level of revenue expected from OCS leasing will not materialize unless some way is found to overcome opposition. Opponents also argue that a move to share OCS revenue now could result in a Congressional decision to require retroactive payments from OCS revenues collected since 1953 or encourage earmarking of other revenues.

5. Potential variability in OCS revenues. Interior estimates that bonuses paid when leases are sold and royalties paid when oil is produced will, together, result in Federal revenues in the range of $4 to $12 billion in each of the next five years -- if the previously announced schedule is maintained and there are not significant changes in emphasis on royalties vs. bonuses. Interior is considering the possibility of increasing royalties from the current 16 2/3% to 40% as a means to reduce front-end costs and encourage exploration. If this were done, bonus revenues would drop by 55% -- resulting in halving the total OCS revenues expected in near term years and increasing them in later years as oil is produced and royalties paid. OCS revenues have fluctuated widely over the past few years:

								Est.	
F.Y.	68	69	70	71	72	73	74	75	76
$B	1.0	0.4	0.2	1.1	0.3	4.0	6.7	2.7	8.0

Revenues are increasingly difficult to predict as much greater acreage is offered and leasing moves to areas that are less well known geologically. Variability in revenue available for sharing would make State and local planning difficult. However, variability could be reduced by an arrangement to deposit the earmarked share in a fund -- with payments to states set at a fixed annual level low enough to permit offsetting low and high revenue years.

6. Incentive for siting energy facilities. Those favoring sharing of revenues with states point out that formulas could be designed to provide a financial incentive for prompt siting of refineries and granting pipeline rights-of-way.

7. Potential for Congressional action. An important and potentially controlling consideration is the prospect for Congressional action to require sharing OCS revenue. The Senate Interior Committee will open hearings in mid-March on OCS bills, including Senator Jackson's comprehensive bill which passed the Senate last year by a vote of 64-23. The House Interior Committee has not yet scheduled hearings on the subject but is expected to do so shortly. The Congressional Relations staff believes the chances are better than even that the Congress will pass a bill this year requiring sharing of revenues -- at least with coastal states.

Alternatives, Recommendations and Decision:

__________ Morton, Zarb, Simon, Seidman, Friedersdorf	1. Decide now to propose sharing of revenue. Begin concentrated effort to identify and develop the best alternative sharing approach (say by April 1). Seek to arrange some quid pro quo before signalling a change in position. (There would be high risk that the change in position will become known publicly.)
__________ Lynn, Greenspan, Buchen, Cavanaugh	2. Maintain current position. Reiterate opposition to sharing of OCS revenues and act to communicate arguments against sharing. Indicate willingness to consider targeted assistance (including a new program) to meet actual needs for assistance that cannot be met reasonably from other sources. Consider proposing sharing of revenue only if it becomes clear that Congress will act to require sharing and a veto override appears likely or, in the longer run, a quid pro quo is identified that justifies sharing revenue. (OMB and Domestic Council staff work quietly with Interior and Treasury to identify and develop alternatives that might be proposed in this case.)

TAB
B

B

OUTER CONTINENTAL SHELF REVENUE SHARING OPTIONS

OMB Staff Study
3-12-75

COMPARISON OF OCS REVENUE SHARING OPTIONS

SUMMARY

	IMPACT AID		IMPACT AID AND FORMULA GRANTS TO COASTAL STATES		IMPACT AID & FORMULA GRANTS TO ALL STATES	FORMULA GRANTS TO COASTAL AND ALL STATES	
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STRATEGIC CRITERIA							
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Reduces environmental political opposition	Slightly	Slightly	No	No, may increase	Slightly	No, may increase	No, may increase
Congressional opposition and risks:							
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- Helps avoid legislation delaying OCS development	Possibly	Possibly	No	No	Possibly	Possibly	Possibly
Type of precedent for inland energy impact problems	Desirable	Desirable	Undesirable	Undesirable	Possibly undesirable	Undesirable	Undesirable
BUDGETARY CRITERIA							
Total proposed 11-year costs	$0.6B	$0.6B	$5.0B	$10B	$7.1B	$17.8B	$17.8B
Year of initial outlays	1978	1978	1975	1975	1975	1975	1975

Option #1: Targeted Need Fund

Description: From bonus receipts, establish a grant and loan fund of $600 million to be built up at a rate of $100 million a year and to remain available for 15 years. Fund would be drawn down for public capital investment on a 50% grant and 50% loan basis by communities experiencing rapid growth which is induced by OCS development. (Part of the fund could be used for loan or bond guarantees).

Distribution of revenues

11-Year Estimated Revenues in $B

Atlantic Coast	Gulf Coast	Pacific Coast	Alaska	Inland States	Total All States	Treasury
.1	.2	.2	.1	0	.6	46.9

Programmatic Impact

- Timing of need:
  - Funds set aside now, but expended only when needed for actual impacts.
  - Solves lead-time financing problems.
  - Cuts off after needs are met. Balance reverts to Treasury.
- Size of need
  - Outflow of funds would be triggered by and directly related to the magnitude of actual need.
- Jurisdictions in need
  - Would go directly to those jurisdictions experiencing need.
- Economic efficiency
  - Loan feature reduces likelihood of overbuilding public facilities.

- Equity

  ° Federal taxpayers absorb half the costs of the on-shore development, but eventual fiscal benefits accrue to specific States and localities.

- Other fiscal effects

  ° Significantly reduces fiscal risks to States and localities.

- Administration

  ° Would require more complex eligibility regulations than straight revenue sharing.

Strategic Impact

- Coastal Opposition

  ° Mitigates that State & local opposition which is based on concern about on-shore development.

- Environmental Opposition

  ° Mitigates that part of environmentalist's opposition which stems from quality-of-life concerns about on-shore development.

- Congressional Opposition

  ° Avoids pressures for retroactivity.

  ° Less chance of 100% earmarking OCS receipts because outflows are based on needs rather than percentage of receipts.

  ° Fund level would likely be increased by Congress.

- Inland views

  ° Less acceptable to inland states.

  ° May result in pressure for similar program for coal & oil shale or an increase in Mineral Leasing revenue sharing.

Budgetary Impact

- Proposed amounts: Total is $.6B over 11 years

Fiscal Years
Outlays ($B)

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
			.05	.05	.1	.1	.1	.1	.1	0

Note: If such a fund were extended to pay for all coal and oil shale public facilities on the same 50% grant and 50% loan basis, the size of the fund would have to be increased approximately fourfold. Such an extension would further discourage the private sector from participating and communities from raising capital through traditional means. And it may stimulate rapid growth where it might not otherwise occur. A loan, credit guarantee and interest grant program would be a much more appropriate Federal role, given such a magnitude.

Option #2
Formula Allocation With Outlays Targeted to Needs

Description: For a period of 10 years, place in a Treasury deposit account 2 1/2% of annual OCS receipts to be allocated by a formula of equal shares to the 22 OCS Coastal States, but with funds not to be paid out until needed. Funds from the account would be made available for loans and grants (including grants for matching shares) for rapid growth which is induced by OCS development. The balance in the fund at the end of 15 years would revert to the Treasury.

Distribution of revenues:

11 Year Estimated Revenues in $B

	Atlantic	Gulf	Pacific	Alaska	Inland	Total All States	Treas.
Allocated at 2 1/2%	.66	.25	.15	.05	0	1.12	46.33

NOTE: Expected outlay over the 11 years would run between $200M to $600M.

Programmatic Impact

- Timing of Need
  - Funds set aside now but expended only as needs occur.
  - Solves lead time financing problems.
  - Cuts off after need ends.
- Size of Need
  - Related to, triggered by, and limited to need.
- Jurisdiction in Need
  - Available to jurisdictions in need.
  - Equal shares are more beneficial to the less populous States, where impacts will be more pronounced.

- Inland Views
  - No financial stake for inland States to support speedy OCS development.
  - This option as a precedent for similar programs for coal & shale development is more desirable than other options.

Budgetary Impact

- Proposed Amounts

Total Outlay is $.6B over 11 years

Fiscal Years*
(Outlays $B)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Outlays				.05	.05	.1	.1	.1	.1	.1	

* Estimate of most likely timing, but funds would be available until 1989.

- Economic Efficiency

  ° Grants pass development costs onto Federal taxpayer, not end user of energy; but use of loans can pass some costs onto end user.

  ° Loan feature reduces likelihood of overbuilding public facilities. Grants reduce use of bonding & taxation.

- Equity

  ° Shares only to meet legitimate needs; remainder of receipts continue to benefit Federal taxpayers.

- Other Fiscal Effects

  ° Reduces State & local fiscal risks.

- Administration

  ° Would require more complex eligibility regulations than straight revenue sharing, but this could be reduced if the funds were transferred into existing appropriate Federal programs earmarked for use by impacted jurisdictions in the Coastal States.

Strategic Impact

- Coastal Opposition

  ° Would mitigate that State and local opposition which stems from concern about on-shore impacts.

- Environmental Opposition

  ° Would mitigate that part of the opposition which stems from quality-of-life concerns about on-shore development, but wouldn't risk possible backlash as sizeable revenue sharing does.

- Congressional Opposition

  ° Avoids pressures for retroactivity.

  ° Less chance for 100% earmarking because outflows are based on need rather than percentage of receipts.

  ° Fund level might be increased by Congress, but percentages and outflows are less than current Congressional proposals, unlike Secretary Morton's other options which include percent sharing.

Option #3: 10 Percent of OCS Revenues (or $.40/Bar.) for impact grants (Jackson's proposal)

(S. 521)

Description

Allocate 10 percent of Federal OCS revenues or $.40/barrel whichever is greater (but limited to $200 million in FY 1976 and FY 1977) for grants to coastal States.

Distribution of revenues

10-Year Estimated Revenues
($ in billions)

Atlantic Coastal	Gulf of Mexico Coastal	Pacific Coastal	Alaska	Inland States	Total States	Treas.
0.4	3.2	1.0	0.4	0	5.0	42.3

Monies would be distributed in proportion to environmental, social, and economic impacts caused or expected to be caused by leasing operation. Acreage leased and volume of production would be considered. Actual distribution to States will hinge on not only where leasing has and will occur but also upon the Secretary's value judgement of how significant impacts really are. The above table shows the distribution of funds based on the assumption that impacts are directly related to quanity of oil produced.

Programmatic Impact

- Timing of need:
  - o Sharing from bonuses would occur earlier than any front-end infrastructure investment needs and would likely be spent before such needs occur (except possibly for new areas sold first).
  - o General sharing from royalties would be available at time of any infrastructure investment needs.
- Size of need:
  - o Sharing of receipts would vastly exceed any possible need for public investments in infrastructure except possibly for Alaska .
- Jurisdictions in need:
  - o None of the sharing in this option is triggered by and directly targeted to meet needs of specific jurisdictions.

- All sharing under this proposal goes to the States, while fiscal impacts are most likely to affect a highly selected group of local jurisdictions. Pass-through to those jurisdictions is uncertain since the big money would come in well before the occurrence of significant OCS development and, therefore, would likely be committed to other statewide purposes.

\- Economic Efficiency

- Option spends vast sums to meet very limited fiscal need.

- Funding to States is in proportion to environmental, social, and economic impacts (paying for damages) and is not based on ameliorating impacts (need). In some cases, funding would likely far exceed need. (Administration favors liability fund to pay for damages).

- Puts costs on Federal taxpayer rather than oil and gas consumers.

- Since sharing is a grant, not a loan, it doesn't encourage impacted jurisdictions to choose projects wisely.

\- Equity

- Requires Federal taxpayers to pay for the onshore costs of development rather than consumers.

- Requires Federal taxpayers to pay coastal States funds over and above cost of mitigating damages.

\- Other Fiscal Effects

- Since actual bonus receipts are highly variable from year to year the general sharing would make State fiscal operation very difficult and generate pressure for a guaranteed annual minimum at a high level.

- Would assist States little in raising capital in private markets because of uncertainties of receiving Federal grants. Would reduce somewhat State risks because facilities would be built and paid for but States could be left with cost of maintaining excessive facilities.

- Option does not solve problems of other energy impacts such as coal and shale development.

Administration -- Would be very difficult to calculate cost of environmental, social and economic impacts so as to compare all coastal States to determine each States' proportional share. Split responsibilities between Interior and Commerce for administering the fund as required by the bill would be cumbersome.

Strategic Impact

- Coastal opposition -- State officials are likely to favor. Local officials would not necessarily favor because of question of whether the States will pass through their share.

  Environmental opposition -- Could create further opposition if it is interpreted to be a buy-out of State opposition to promote rapid OCS development.

- Congressional Opposition and Risks

  - o Would reduce opposition to extent it's based on State opposition rather than local or environmental opposition.
  - o Could generate pressure for retroactivity on 1953-1974 receipts from Gulf of Mexico offshore.
  - o Would increase pressures to earmark OCS receipts for other purposes; such claims could total 100%.

- Inland Views

  - o Could lead to inland State claims to share in revenues.
  - o Could lead to greater claims on onshore mineral leasing revenues.

Budgetary Impact

- Proposed Amounts: Total is$5.0 B over 11 years.

Fiscal Years
($ in billions)

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
0.4	0.2	0.2	0.7	0.7	0.3	0.4	0.4	0.5	0.6	0.6

- Total amounts earmarked and shared could be substantially higher due to:
    - o Pressures to earmark for other purposes.
    - o Greater sharing than proposed including minimum annual amounts at a high floor level.
    - o Receipts and therefore payments to States beginning in 1981 are grossly underestimated if oil is found in the frontier areas and leasing is continued past 1980.

Option #4: 10% of Revenues for Impact Grants plus 5% value of oil & gas landed.

Description

Allocate 10% of OCS revenues for impact grants to Coastal States as in Option 3, and from royalties pay Coastal States 5% of the value of OCS oil and gas brought onshore within their boundaries.

Distribution of revenues

11-Year Estimated Revenues in $B

	Atlantic Coast	Gulf Coast	Pacific Coast	Alaska	Inland States	Total All States	Treasury
Grants.	.4	3.	1	.4		4.8	
5%	.4	3.5	1.1	.2		5.2	
Total	.8	6.5	2.1	.6	0	10	37.5

- Timing of Need

  . Grants to States preceed need and could be spent on Statewide projects and therefore not available as local OCS needs arise.

  . Allocation of 5% value of oil landed is too late to meet front end OCS needs.

  . Sharing from production royalties continues long after needs are met.

- Size of Need

  . Neither grants nor 5% allocation are triggered by or scaled to needs.

- Jurisdiction in Need

  . Grants and 5% allocation targeted to States, not local jurisdictions where the actual needs arise. Pass-through is uncertain.

  . 65% of sharing will primarily go to Texas and Louisiana, the two states with perhaps the least need and the most available alternate sources of revenue (e.g., corporate income tax).

- Economic Efficiency

  . Spends vast sums to meet limited fiscal needs.

  . Passes costs of development onto Federal taxpayer, not end user of oil & gas.

  . Grants discourage use of bonding and taxation to recover development costs.

  . May encourage excess number of landing facilities.

- Equity

  . Requires Federal taxpayer, not consumer, to pay for development costs.

  . Shares national OCS revenues with just Coastal States.

  . 5% allocation is approximately equal to the 37 1/2% Minerals Leasing revenue sharing.

- Other Fiscal Effects

  . Variability in receipts will complicate State fiscal planning and generate pressure for a high guaranteed floor.

  . Doesn't significantly reduce State fiscal risk or enhance State access to capital markets since receipts are variable and sharing with any one State will be small.

  . Does not apply to coal & shale impacts.

- Administration

  . Determination of formula for impact grants would be difficult, but 5% allocation would be simple.

Strategic Impact

- Coastal Opposition

  . State officials likely to favor. Local officials won't favor unless a pass-through is guaranteed.

- Environmental Opposition

  . Could increase opposition if perceived as a buy-out of State Houses to speed OCS development.

- Congressional Opposition & Risks

  . May generate pressure for retroactivity and earmarking 100% of OCS receipts.

  . Proposes larger sharing than current Congressional proposals.

- Inland Views

  . Could lead to inland State pressure for similar program for coal & shale or increases in Mineral Leasing sharing.

  . May be viewed as sharing national asset with just Coastal States.

Budgetary Impact

Proposed Amounts: Total is $10B over 11 years

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
.9	.9	1.0	1.	1.1	.6	.7	.8	.9	1.0	1.1

Option #5: Targeted Need plus 37 1/2% of Royalties

Description: From bonus receipts, establish a grant and loan fund of $600 million to be built up at a rate of $100 million a year and to remain available for ten years. Fund would be drawn down for public capital investment on a 50% grant and 50% loan basis by communities experiencing rapid growth which is induced by OCS development. (Part of the fund could be used for loan or bond guarantees.) Additionally, 37 1/2% of royalties would be shared with all States based on population or the general revenue sharing formula.

Distribution of revenues

11 Year Estimated Revenues in $B

	Atlantic Coast	Gulf Coast	Pacific Coast	Alaska	Inland States	Total All States	Treasury
Fund	.1	.2	.2	.1	0	.6	
Royalty	1.9	.9	.8	.01	2.9	6.5	
Total	2.0	1.1	1.0	1.01	2.9	7.1	40.4

Programmatic Impact

--Timing of Need

- Bonus fund available as needs occur. Royalty sharing disbursed before needs arise.
- Bonus fund solves lead-time financing problems.
- Bonus fund cuts off after need ends. Royalty sharing continues long after needs are met.

--Size of Need

- Bonus fund related to and triggered by need. Royalty sharing unrelated to size of need and increases over time.

--Jurisdiction in Need

- Bonus fund available to jurisdictions in need. Royalty sharing unrelated to jurisdictional needs.

- Economic Efficeincy

  ° Bonus fund grants pass development costs onto Federal taxpayer, not end user of energy.

  ° No-strings royalty sharing can be used for infrastructure costs, and therefore more of the bonus fund could be dedicated for loans rather than grants.

- Equity

  ° Sharing royalties with all states is more equitable than sharing with just Coastal States. Sharing by population is more equitable than sharing which is dominated by oil-landed on-shore incentive.

- Other Fiscal Effects

  ° Bonus fund eliminates State and local fiscal risks. Royalty sharing has no relationship to such risks.

  ° Royalty sharing is an incentive for States to support a change to 40% royalty rate.

- Administration

  ° Would require more complex eligibility regulations than straight revenue sharing.

Strategic Impact

- Coastal opposition

  ° Bonus fund would mitigate that State and local opposition which stems from concern about on-shore impacts.

  ° Royalty sharing would eliminate some opposition at State level, but not necessarily at local level.

--Environmental Opposition

° Would not be reduced further than under bonus fund option.

--Congressional opposition and risks

° Would generate pressure for retroactive sharing with Texas and Louisiana, the two States which have the least need and the most alternative sources of financing.

° May generate pressures for 100% earmarking.

° Liklihood of being increased by Congress.

--Inland views

° Acceptable to inland States.

° Would not necessarily lead to pressure to increase Mineral Leasing revenue sharing.

Budgetary Impact

-- Proposed Amounts: Total is $6.7 billion over 11 years.

Fiscal Years ($B)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Fund				.05	.05	.1	.1	.1	.1	.1	
Royalty	.3	.3	.3	.4	.5	.5	.6	.7	.8	.9	1
Total	.3	.3	.3	.45	.55	.6	.7	.8	.9	1.0	1.0

NOTE: If such a fund were extended to pay for all coal and oil shale public facilities on the same 50% grant and 50% loan basis, the size of the fund would have to be increased approximately fourfold. Such an extension would further discourage the private sector from participating and communities from raising capital through traditional means. And, it may stimulate rapid growth where it would not otherwise occur. A loan, credit guarantee and interest grant program would be a much more appropriate Federal role, given such a magnitude.

Option #6: Secretary Morton's Proposal

Description: (1) Allocate 5% of the value of OCS production to coastal states on the basis of barrels of oil brought ashore, and (2) allocate 37.5% of all OCS revenues, less the coastal state production-basis allocation, to all states on the basis of population.

Distribution of revenues:

11-Year Estimated Revenues in $B

Atlantic Coastal	Gulf of Mexico Coastal	Pacific Coastal	Alaska	Inland States	Total to States	U.S. Treasury
4.0	5.2	2.7	0.2	5.6	17.8	29.7

Programmatic impact

- Timing of need: 1/

  ° General sharing from bonuses earlier than OCS fiscal needs. Probably spent before such needs occur.

  ° General sharing from royalties available at time of fiscal needs. However, probably committed to other state needs before OCS needs arise.

  ° Coastal state allocation from oil landed too late to meet front end OCS needs.

  ° All sharing from royalties continues long after OCS fiscal needs -- 20 to 30 years.

- Size of need: 1/

  ° None of sharing is triggered and scaled to actual need.

  ° General sharing from bonuses and royalties vastly exceeds any possible OCS fiscal need except possibly for Alaska.

  ° For most new oil areas OCS needs are at a time when only general sharing from royalties available; this generally not adequate in size to meet needs.

  ° Coastal allocations from oil landed large enough to compensate for fiscal impacts but they won't occur until after impacts.

1/ See Table 1.

- Jurisdictions in need:

  - None of the sharing triggered by and directly targeted to meet needs of specific jurisdictions.

  - Of the general sharing, 45% ($5.6B) would go to non-coastal states, 10% ($1.2B) to California, and 9% ($1.1B) to New York. Only $20M would go to Alaska.

  - Coastal state allocation for barrels landed would match impacts from landing and refining the oil, but impacts from location of offshore personnel and industry servicing the offshore development could be located elsewhere.

  - All sharing under proposal goes to the states, while fiscal impacts likely to affect a highly selected group of local jurisdictions. Pass-through to those jurisdictions is highly uncertain since big money comes in well before significant OCS development and probably will be committed to other statewide purposes.

- Economic efficiency:

  - Option spends vast sums to meet very limited fiscal needs.

  - Does not target sharing to impacted jurisdictions.

  - Puts costs on Federal taxpayer rather than on oil and gas consumers.

  - Since sharing is a grant, not a loan, it doesn't encourage impacted jurisdictions to bond and recover by taxation over the life of the development.

  - Gives states an incentive to oppose bidding options which reduce bonuses.

  - Gives coastal states incentive to bid for oil landing facilities potentially giving funds to companies and causing inefficient siting.

- Equity

  - Requires Federal taxpayers to pay for the onshore costs of development rather than consumers.

  - Requires Federal taxpayers to support State activities and reduces state taxpayer control.

- Other fiscal effects:

  - Bonus receipts variability 2/ will make State fiscal operation very difficult and generate pressure for a guaranteed annual minimum at a high level.

  - Sharing level drops sharply in 1981 -- from $3B to $600M.

  - Little impact on enhancing state and local access to capital markets since longer term sharing from royalties would be small for any one state.

  - Doesn't reduce fiscal risks to states and localities since general royalty sharing is small for any one state.

- Administration:

  - Administratively simple since determination of actual impacts and needs is unnecessary.

Strategic impact

- Coastal opposition:

  - Would eliminate much opposition to leasing at State level.

  - Would not necessarily eliminate local opposition to leasing.

  - Would provide states with incentives to site facilities for landing and processing oil but wouldn't eliminate local opposition.

  - Wouldn't reduce problems of siting other types of facilities unless they were located in state where oil would be landed.

- Environmental opposition: Would not be reduced.

- Congressional opposition and risks:

  - Would reduce opposition to extent it's based on state opposition rather than local or environmental opposition.

  - Would generate pressure for retroactivity on 1953-1974 receipts from Gulf of Mexico offshore.

2/ See Table 2.

° Would increase pressures to earmark OCS receipts for other purposes; such claims could total 100%.

° Would have a high likelihood that Congress would increase the level shared beyond that proposed.

- <u>Inland views</u>:

  ° Would be acceptable to inland states.

  ° Could lead to greater claims on onshore mineral leasing revenues.

<u>Budgetary impact</u>

17.8

- Proposed amounts: Total is $~~21~~B over 11 years

Fiscal years ($B)

1975	1976	1976T	1977	1978	1979	1980	1981	1982	1983	1984	1985
0.2	3.3	0.8	3.3	3.4	3.4	2.7	0.6	0.7	0.8	0.9	1.0

- Total amounts earmarked and shared could be substantially higher (up to $56B) due to:

  ° Pressures to earmark for other purposes.

  ° Greater sharing than proposed including minimum annual amounts at a high floor level.

  ° Payments to states could be seriously underestimated, if discoveries from 1975 to 1980 leasing justify additional large sales in the 1981 to 1985 period.

Table 1
General Sharing with all States
$M

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
North Atlantic States		(*)				(**)					
Maine------------------	11.4	11.4	11.5	11.5	11.6	0.5	0.6	0.7	0.8	0.9	1.0
New Hampshire----------	8.6	8.6	8.5	8.6	8.7	0.4	0.5	0.5	0.6	0.7	0.8
Massachusetts----------	64.2	64.3	64.4	64.8	65.1	2.9	3.5	4.1	4.7	5.2	5.8
Rhode Island-----------	10.7	10.8	10.3	10.8	10.9	0.5	0.6	0.7	0.8	0.9	1.0
Connecticut------------	34.2	34.2	34.3	34.5	34.7	1.6	1.9	2.2	2.5	2.8	3.1

* North Atlantic sale 1976. ** First production 1980. *** Peak production 1987.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Middle Atlantic States		(*)			(**)						(***)
New York---------------	203.7	204.1	204.4	205.6	206.7	9.3	11.2	13.0	14.8	16.6	18.4
New Jersey-------------	81.7	81.9	82.0	82.5	82.9	3.8	4.5	5.2	5.9	6.7	7.4
Delaware---------------	6.3	6.3	6.3	6.3	6.4	0.3	0.3	0.4	0.5	0.5	0.6
Maryland---------------	45.0	45.1	45.2	45.4	45.7	2.1	2.5	2.9	3.3	3.7	4.1
Virginia---------------	52.8	52.9	53.0	53.3	53.6	2.4	2.9	3.4	3.8	4.3	4.8

* Middle Atlantic sale 1976. ** First production 1979. *** Peak production 1985.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
South Atlantic States		(*)				(**)					
North Carolina---------	57.8	57.9	58.0	58.4	58.7	2.7	3.2	3.7	4.2	4.7	5.2
South Carolina---------	29.6	29.6	29.7	29.8	30.0	1.4	1.6	1.9	2.2	2.4	2.7
Georgia----------------	52.4	52.5	52.5	52.8	53.1	2.4	2.9	3.3	3.8	4.3	4.7

* South Atlantic sale 1976. ** First production 1980. *** Peak production 1987.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
		(*)						(**)			
Alaska -----------------	3.6	3.6	3.6	3.6	3.7	0.2	0.2	0.2	0.3	0.3	0.3

* First Alaska sale 1976. ** First production 1982. *** Peak production 1987.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Oregon-Washington				(*)				(**)			
Oregon-----------------	24.2	24.2	24.3	24.4	24.6	1.1	1.3	1.5	1.8	2.0	2.2
Washington-------------	38.2	38.3	38.3	38.5	38.8	1.8	2.1	2.4	2.8	3.1	3.5

* Northern California-Oregon-Washington sale 1978. ** First production 1982. *** Peak production ?.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
	(*)		(**)				(***)				
California---------------	227.1	227.5	227.8	229.1	230.4	10.4	12.5	14.4	16.5	18.5	20.5

* Southern California sale 1975 (Dec.). ** First production 1977. *** Peak production 1981.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Gulf of Mexico States*											
Florida-----------------	80.5	80.7	80.8	81.3	81.7	3.7	4.4	5.1	5.9	6.6	7.3
Alabama-----------------	38.9	39.0	39.1	39.3	39.5	1.8	2.1	2.5	2.8	3.2	3.5
Mississippi-------------	25.1	25.1	25.2	25.3	25.5	1.2	1.4	1.6	1.8	2.0	2.3
Louisiana---------------	41.3	41.3	41.4	41.6	41.9	1.9	2.3	2.6	3.0	3.4	3.7
Texas-------------------	129.2	129.4	129.7	130.4	131.1	5.9	7.1	8.2	9.4	10.5	11.7

* Initial sales have been held in all areas.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Inland------------------	1038.3	1040.1	1041.9	1047.8	1053.6	47.6	57.1	66.1	75.5	84.5	93.9

3/5/75

Table 2

Historical Instability in OCS Receipts

FY	68	69	70	71	72	73	74	75	Est. 76
$B	1.0	0.4	0.2	1.1	0.3	4.0	6.7	2.7	8.0

Option #7: 37 1/2% of Revenues for Nationwide Impact Grants, Revenue Sharing, and Coastal State Production Shares

Description: Divide 37 1/2% of all OCS revenues three ways: (1) 5% of the value of OCS production with coastal States, (2) up to $500M annually for a nationwide impact grant fund, and (3) the remainder with all States based on population or the General Revenue Sharing formula.

Distribution of Revenues:

11 Year Estimated Revenues in $B

	Atlantic Coast	Gulf Coast	Pacific Coast	Alaska	Inland States	Total All States	Treasury
5%	.4	3.5	1.1	.2	0	5.2	
Fund	.1	.8	.2	.1	2.3	3.5	
Remainder	2.6	1.2	1.1	.1	4.1	9.1	
Total	3.1	5.5	2.4	.4	6.4	17.8	29.7

Programmatic Impact

- Timing of Need
  - Impact grants preceed need.
  - National revenue sharing not available at time of OCS need because it drops to zero after 1979, but is available for near-term inland impacts.
  - 5% allocation too late for front end OCS needs.
- Size of Need
  - Sharing is not triggered by or scaled to needs.
  - Greatly exceeds needs, even when coal & shale impacts are included.
- Jurisdictions in Need
  - Targeted to States, but not localities where the needs arise. Pass-through is uncertain.
  - About 30% of the revenue shared will go to Texas and Louisiana.

- Economic Efficiency

  - Grants pass costs of development onto Federal taxpayer, not consumer.

  - Spends large sums to meet limited needs.

  - Grants discourage use of bonding and taxation to recover development costs.

  - May encourage excess number of landing facilities.

- Equity

  - Federal taxpayer pays for local development costs.

  - Shares national asset with all States.

- Other Fiscal Effects

  - Variation in annual OCS receipts will complicate State fiscal planning, particularly since National sharing drops to zero after 1979.

  - Applies to inland energy impacts.

- Administration

  - Determination of formula for impact grants would be difficult, but other features are administratively simple.

Strategic Impact

- Coastal Opposition

  - State officials likely to favor. Local officials wouldn't favor unless pass-through was guaranteed.

- Environmental Opposition

  - Could increase opposition if seen as an attempt to buy-off State officials' opposition to OCS development.

- Congressional Opposition & Risks

  - May generate pressures for retroactivity and earmarking 100% OCS receipts.

  - Proposes much larger sharing than current Congressional proposals.

- Inland Views

  ° Acceptable because some sharing goes to all States.

  ° Acceptable because also applicable to inland energy impacts.

- Budgetary Impact

  Proposed Amounts: Total is $17.8B over 11 years.

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
2.6	2.6	2.6	2.7	2.7	.5	.6	.7	.8	.9	1.1

ASSUMPTIONS FOR ANALYSIS OF OCS POPULATION IMPACTS

Production
Millions of Barrels Per Year (BPY)

Year	Total	Gulf	Pacific	Atlantic	Alaska
1975	447	425	22	0	0
1976	476				
1977	506	450	50	0	5
1978	601				
1979	696				
1980	791	530	166	47	47
1981	944				
1982	1,097				
1983	1,250				
1984	1,403				
1985	1,557	763	420	187	187

Employment

Each additional 250,000 BPD (91,250,000 BPY) requires:

200- 400 workers in exploration phase;
1000-2000 workers in construction phase;
300- 400 workers in operation phase.

(These estimates based on North Sea technology, as quoted in Oil & Gas Journal, 1-8-73, and Shell estimates quoted by Rand in their California OCS study.)

ADDITIONAL EXPLORATION AND PRODUCTION EMPLOYEES 1/

Year	Total	Gulf	Pacific	Atlantic	Alaska
1977	192	81	93	0	18
1980	939	264	381	156	138
1985	2517	765	834	459	459
	3648	1110	1308	615	615

ADDITIONAL CONSTRUCTION EMPLOYEES 2/

Year	Total	Gulf	Pacific	Atlantic	Alaska
1977	960	405	465		90
1980	3735	915	1440	780	600
1985	7890	2505	2265	1515	1605
	12585	3825	4170	2295	2295

SUM OF DIRECT EMPLOYMENT: EXPLORATION, CONSTRUCTION & PRODUCTION

Year	Total	Gulf	Pacific	Atlantic	Alaska
1977	1152	486	558	0	108
1980	4674	1179	1821	936	738
1985	10407	3270	3099	1974	2064
	16233	4935	5478	2910	2910

1/ (Incremental production in MBPY/91MBPY) X (300 employees).

2/ (Marginal increase in incremental production in MBPY/91MBPY) X (1500 employees).

This formula assumes that construction workers will move with the jobs, so that the population impact will stem from net addition to construction force due to the marginal increase in OCS development.

Population (1975-1985) and Public Infrastructure Costs

Ratio of direct to indirect and secondary 1:3
Ratio of Employment to population 1:2.5

	Total	Gulf	Pacific	Atlantic	Alaska
Direct	16500	5000	5500	3000	3000
Indirect and secondary	49500	15000	16500	9000	9000
Population	123750	37500	41250	22500	22500
Public Infrastructure in millions at $5000 per capita	$619	$188	$206	$112	$112

ANALYSIS OF LOCAL CAPITAL EXPENDITURE REQUIREMENTS FROM ENERGY DEVELOPMENT INCURRED GROWTH

($ per capita)

1. Water (170 gpd/capita)	
Source development	$ 43[a]
Treatment Facilities	130
Distribution and Storage	450
Total	623*
2. Sewage and Solid Waste (100 gpd/capita)	
Treatment	$168[b]
Collection System	720
Out Flow Lines	7
Solid Waste	15
Total	910*
3. Fire Service	$180[c]*
4. Libraries	$ 46*
5. Recreation	
Neighborhood Park and Playgrounds	$ 50[d]
District Park ($.60sq.ft.)	200[e]
Regional Park ($500/acre)	50
	300*
6. Police and Security	$ 60*
7. Health	$344[f]
8. Education	
Elementary	$646[g]
Secondary	429[h]
Vocational	61[i]
	1136
9. Community and Social Services	$176*

10.Local Government $ 7

11.Transport(Roads and Streets) $ 400-1200[j]*

GRAND TOTAL W/OUT HOUSING $4182-4982

12.Housing $ 5000-8000[k]

*Estimates from report prepared by R.L. Lindauer, EXXON Corporation, for the Wyoming Select Committee, November 1974.

a)$43 per capita is based on $75 per acre foot; City spread out to average of only 1.3 living units per acre but capital costs per individual must meet the standards of EPA, National Fire Underwriters,National Education organizations etc.
b)Up to 80% available from EPA if time permits
c)12 pumpers & 5 ladder trucks within 5 miles for each 10,000 pop
d)Land donated; $50 assumes 8.5 acres/1000 with $50,000 in facilities
e)2 acres per 1000 plus swimming or other similar facilities
f)Number of beds needed per 50,000 pop.=203;Cost of 203 bed facility=$17,200,000;Operating costs=Unknown(not included in health costs)
g)Number of pupils per 50,000 pop.=7,450;Cost of construction $23,989,000;Cost of maintenance, operation, instruction=$8.314, 200;data provided by HEW
h)Number of pupils per 50,000 pop.=3,350; Cost of construction= $17,721,500;Cost of maintenance, operation, instruction= $3,738,600;data provided by HEW
i)Number of people served per 50,000 pop.=2,100:300 students in 1/2 day shifts:1,500 adults in night classes; Cost of facility=$2,376,000;Cost of instruction=$672,000;data provided by HEW
j)A "most probable" scenario range of road costs to account for geographic variation
k)3,300 families per 10,000 pop."Most probable" scenario ranges from an early development pattern of 2 person families per mobile home(cost=$10,000 or $5,000/capita) to later development patterns of 3+person families per conventional home(cost=$25,000 or $8,000/capita) with some mobile homes; data provided by a housing economist in USDA.

COMPARISON OF OCS REVENUE SHARING OPTIONS

	IMPACT AID		IMPACT AID AND FORMULA GRANTS TO COASTAL STATES		IMPACT AID & FORMULA GRANTS TO ALL STATES	FORMULA GRANTS TO COASTAL AND ALL STATES	
	#1	#2	#3	#4	#5	#6	#7
	$600M Targeted Needs Program	2-1/2% Allocation with Grants and Loans Targeted and Limited to Need	10% Shared in Proportion to Impacts (Senator Jackson S.521)	10% for Impact Grants plus 5% Royalty to Coastal States	Targeted Needs + 37-1/2% of Royalties	5% Royalty to Coastal States + Sharing with all States to Total 37-1/2% (Sec. Morton)	Same as #6 Plus $500M Nationwide Impact Fund
PROGRAMMATIC CRITERIA							
Timing of sharing:							
- Sharing prior to need------------	No	No	Yes	Yes	Yes, modest	Yes, very large	Yes, very large
- Shares enough at time of need----	Yes	Yes	Yes	Yes	Yes	No	Possibly no
- Cuts off at end of need----------	Yes	Yes	No	No	No	No	No
Size of sharing in relation to need:							
- In total-------------------------	Equal	Equal	8 times	17 times	12 times	30 times	30 times
- At time of need------------------	Adequate	Adequate	Adequate	Adequate	Adequate	Inadequate	Possibly inadequate
Triggered by actual need:------------	Yes	Yes	Not required	No	In part, yes, largely no	No	In part, yes, largely no
Targeted to right jurisdictions:							
- Sharing with non-impacted states-	No	No	No	No	Yes, significant	Yes, very large	Yes, very large
- Sharing with potentially impacted states------------------	Adequate	Adequate	Adequate	Adequate	Adequate	Adequate in total, too large in some cases	Adequate in total, too large in some cases

COMPARISON OF OCS REVENUE SHARING OPTIONS

	IMPACT AID		IMPACT AID AND FORMULA GRANTS TO COASTAL STATES		IMPACT AID & FORMULA GRANTS TO ALL STATES	FORMULA GRANTS TO COASTAL AND ALL STATES	
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PROGRAMMATIC CRITERIA (Continued)							
- Assurance of receipts by impacted localities	Yes	Yes	No	No	Yes	No	Possibly
Economic efficiency:							
- Encourages overbuilding	No	No	Possibly	Possibly	No	Probably	Probably
- Costs put on consumers	In part	In part	No	No	Largely no	No	No
- Funds programs state taxpayers might not find worthwhile if they had to pay for them	Slightly	Slightly	Yes, to limited degree	Yes	Slightly	Yes, substantially	Yes, very substantially
Equity:							
- Subsidizes state taxpayer at expense of Federal	No	No	Substantially	Greatly	Substantially	Greatly	Greatly
- Increases Federal taxpayer burden	Very modestly	Very modestly	Substantially	Very much	Modestly	Very much	Very much
Other Fiscal effects:							
- Improves state and local access to capital markets	Some	Some	No	No	Some	No	No
- Exposure of states and localities to risks from expected development not taking place	Some	Some	No	No	Some	No, if passed through	No, if passed through

COMPARISON OF OCS REVENUE SHARING OPTIONS

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PROGRAMMATIC CRITERIA (Continued)							
- Creates revenue sharing instabilities or sharp declines--	No	No	Severe	Severe	No	Severe	Severe
Administratively complexity:---------	Workable criteria	Workable criteria	Very vague criteria & split authority	Vague criteria	Workable criteria	Simple formula	Workable criteria
STRATEGIC CRITERIA							
Coastal opposition:							
- Reduces state political opposition---------------------	Yes, but demand for sharing not met	Yes, but demand for sharing not met	Yes	Yes	Yes	Yes	Yes
- Reduces local political opposition---------------------	Yes	Yes	Not necessarily	Not necessarily	Yes	Probably no	Not necessarily
- Help resolve onshore siting problems----------------------	Yes, for all OCS facilities	Yes, for all OCS facilities	Not necessarily	Not necessarily	Yes, for all OCS facilities	Only for landing facilities	Only for landing facilities
- Speeds OCS development by improving U.S. legal position----	No	No	No	No	No	No	No
Environmental opposition:							
- Reduces environmental political opposition-------------------	Slightly	Slightly	No	No, may increase	Slightly	No, may increase	No, may increase

COMPARISON OF OCS REVENUE SHARING OPTIONS

	IMPACT AID		IMPACT AID AND FORMULA GRANTS TO COASTAL STATES		IMPACT AID & FORMULA GRANTS TO ALL STATES	FORMULA GRANTS TO COASTAL AND ALL STATES	
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STRATEGIC CRITERIA (Continued)							
- Speeds OCS development by improving U.S. legal position----	No	No	No	No	No	No	No
Congressional opposition and risks:							
- Raises retroactivity issue-------	No	No	Yes	Yes	To a limited extent	Yes	Yes
- Risks additional earmarking for other purposes------------------	Least risk	Least risk	Yes	Yes	To a limited extent	Yes	Yes
- Risk of being increased by Congress-------------------------	Yes, at low cost	Yes, at low cost	Yes, at high cost	Yes, at high cost	Yes, at high cost	No	No
- Helps avoid legislation delaying OCS development------------------	Possibly	Possibly	No	No	Possibly	Possibly	Possibly
Inland views:							
- Acceptable to inland officials---	Yes	Yes	Possibly no	Possibly no	Yes	Yes	Yes
- Type of precedent for inland energy impact problems-----------	Desirable	Desirable	Undesirable	Undesirable	Possibly undesirable	Undesirable	Undesirable
BUDGETARY CRITERIA							
- Total proposed 11-year costs-----	$0.6B	$0.6B	$5.0B	$10B	$7.1B	$17.8B	$17.8B
- Year of initial outlays----------	1978	1978	1975	1975	1975	1975	1975

COMPARISON OF OCS REVENUE SHARING OPTIONS

	IMPACT AID		IMPACT AID AND FORMULA GRANTS TO COASTAL STATES		IMPACT AID & FORMULA GRANTS TO ALL STATES	FORMULA GRANTS TO COASTAL AND ALL STATES	
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BUDGETARY CRITERIA (Continued)							
- Risk of minimum sharing floor----	None	None	High	High	None	High	High
- Risks of greater OCS sharing including for other purposes------	Low	Low	High	High	Probably some	Probably some	High
- Potential induced increase in costs of meeting coal and shale impact problems------------	Small	Small	Very large	Very large	Large	Very large	Possibly large

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OPTION PAPER

Sharing Outer Continental Shelf Revenues with States

An accelerated leasing program has been initiated on the Outer Continental Shelf (OCS) to open up frontier oil and gas prospects and provide a badly needed supplement to domestic onshore production. Coastal States are troubled by the prospect of accelerated leasing off their shores because they would have to bear the brunt of certain costs of development while the entire Nation receives the benefit of increased domestic supplies of oil and gas.

Coastal State concerns about OCS development involve:

- environmental damages, including possible oil spills
- esthetic impacts
- economic effects, including possible disorderly development, injury to existing industry, and the burden of providing new public services.

To meet these concerns, the Federal Government has already proposed increased planning money for the Coastal Zone Management Act, and is developing a Comprehensive Oil Spill Liability bill.

It has, however, up to now opposed providing Coastal States with a share of OCS revenues on the grounds that -

- OCS revenues belong to all the Nation, and their revenues should benefit all citizens
- a number of Federal programs already exist which provide assistance to States in ameliorating impacts of development
- sharing OCS revenues with Coastal States would reduce the amount of revenues available to support other Federal expenditures and require compensating adjustment elsewhere in the Federal budget
- onshore development induced by offshore activities will eventually provide State and local governments with an increased tax base to finance necessary public facilities, so that there may be no need for a long-term sharing program for impact aid
- States' rights to revenues from offshore minerals leasing were legislatively determined in the Submerged Lands Act of 1953 which gave States complete jurisdiction over the first three miles of seabed, but nothing beyond

- sources of opposition to OCS leasing are varied, and not all might be eliminated by sharing of revenues

However, there are reasons for reconsidering this position.

- failure to respond to State concerns could solidify opposition which would postpone leasing in frontier OCS areas and delay receipt of the National benefits of accelerated development. In Federal revenues alone, the loss in discounted-value terms of even a one-year delay would be about $2.9 billion

- there may be a valid need for Federal assistance now that frontier OCS areas will be opened. For example, "front-end" money would help State and local governments begin building public facilities before OCS developments provide an increased tax base on which to finance such expenditures

- the three-mile state jurisdiction is of little revenue value to States in frontier areas such as the Atlantic Coast, where oil and gas reserves are all located farther offshore

- shared revenues could give Coastal States a financial stake in prompt OCS development

- sharing OCS revenues would be consistent with various onshore sharing precedents, notably the Minerals Leasing Act which gives affected States 37 1/2 percent of Federal leasing revenues

- Congressional action on shared revenues is possible regardless of the Administration position

There are three general approaches to providing funds to States:

- provide money for impact-amelioration projects--tie use of funds to specific purposes which underwrite costs faced by States as a result of OCS activity

- provide formula-based, no strings money to States affected by OCS activity--make funds available which are sufficient to keep Coastal States from being worse off on balance as a result of OCS activity, and distribute these revenues generally in accordance with expected impacts, but leave to the States the decision as to how to use the money

- provide an "ownership" stake in OCS development through a share of Federal revenues--distribute a proportion of revenues without direct regard to expected impacts, perhaps to both inland and Coastal States

Option I: Coastal State Impact Aid

Description

This option provides funds to Coastal States to ameliorate negative impacts of OCS development

- some modest proportion of Federal OCS revenues, would fund grants to Coastal States
- funds would be made available soon enough for "front-end" costs, not delayed until actual offshore production starts
- grants could be distributed either by formula based on general indices of impacts, or by project after a showing of specific impacts, or both
- grants could either require State matching or provide full Federal funding, and could be limited to needs not met by existing Federal grant programs

Program Effects

Favorable:

- the option would focus specifically on ameliorating onshore impacts of OCS development, and reduce them as a barrier to accelerated leasing in frontier areas
- the use of grant funds would be tied directly to impacts
- budget outlays would be modest by comparison with the other options considered

Unfavorable:

- mere amelioration of impacts might be insufficient to lead Coastal States to accept OCS development
- the grants might be opposed on grounds that OCS revenues are a National asset and should not be disbursed only to Coastal States
- clear identification and measurement of impacts for purposes of awarding grants would be administratively difficult

- the impact rationale focuses assistance efficiently on future impacts but makes no allowance for past impacts, which may seem inequitable to States where OCS leasing has already occurred

- the option would not address the energy impact concerns of inland States, and might appear to single out Coastal States for special treatment, although inland States already receive 37 1/2 percent of Federal revenues from minerals leasing within their boundaries

Three specific variants of this option warrant particular attention.

Option Ia: Formula Impact Aid

Description

This variant would distribute among Coastal States a fixed percentage of Federal OCS revenues without time limit or annual dollar ceiling

- 10 percent of Federal OCS revenues would be deposited in the impact aid fund

- alternatively, as in a current congressional proposal, the fund would be financed by 10 percent of Federal OCS revenues or 40 cents per barrel of oil, whichever is greater, although the structure of Federal revenues (bonus plus royalties) would complicate the 40 cents per barrel calculation

- grants would be distributed by formula based on general indicators of impact

Program Effects

Favorable:

- 10 percent funding as long as Federal revenues continued would provide a continuing source of funds to meet Coastal State impact needs whenever they arose

- 10 percent funding would be ample to meet currently anticipated needs thereby reassuring Coastal States that their impact concerns would be sufficiently provided for

Unfavorable:

- 10 percent funding might result in distributing more money than strict impact accounting would require

Budget Outlays

Impact aid for Coastal States equal to 10 percent of Federal revenues would range between $141 million and $724 million per year between 1975 and 1985, based on current production estimates. Revenue distribution by State would depend on the project eligibility rules or the distribution formula adopted, but if properly administered would closely approximate the distribution of actual impacts. More detailed projections of the budget outlays under this option and those that follow are provided in the attached tables.

Option Ib: Targeted Impact Aid

Description

This variation would provide impact aid to Coastal States under terms that would link the aid directly to the alleviation of negative impacts:

- the fund would be limited to a total of $600 million to be built up from bonus receipts at $100 million per year

- aid to impacted communities for public capital investment would be made in the form of 50 percent grant and 50 percent loan funds

- the balance of the fund not spent on actual, demonstrated impacts would revert to the Treasury after 15 years.

Program Effects

Favorable:

- the timing and jurisdictions receiving aid would be directly tied to impacts

- the loan feature would reduce the likelihood of overbuilding public facilities

- the aid would be cut off after 15 years, which should be ample time to meet impact needs

Unfavorable:

- clear identification and measurement of impacts for purposes of awarding grants would require complex eligibility criteria and administrative review

- grant amounts might appear to Coastal States to make inadequate provision for their anticipated needs

Budget Outlays

Impact aid under this variation of Option I would be limited to $100 million annually or less. The distribution by state would depend on the distribution of demonstrated impacts.

Option Ic: Combination Impact Aid

Description

Under this variation of Option I, funds would be allocated to Coastal States by formula but allocated funds would be paid out only for demonstrated need.

- the fund would be built by a deposit of 2 1/2 percent of annual OCS lease revenues for a period of 10 years

- revenues in the fund would be allocated to the 22 Coastal States by formula, giving an equal share to each state

- aid payments would be made to states out of this allocation when triggered by a showing of need

- aid payments would be available as grants and loans

- the balance of funds not expended on need would revert to the Treasury after 15 years.

Program Effects

Favorable:

- equal shares would provide more aid per capita to the less populous states, where impacts could be more pronounced

- formula aid would determine, in an administratively easy way, the maximum amount a state could get

Unfavorable:

- equal sharing by Coastal States could lead to a misallocation of resources because of impacts in rural areas of large, populous states

Budget Outlays

The outlays under Option Ic, as projected by OMB, would reach $100 million a year, totalling $600 million. At 2 1/2 percent of OCS revenues, $1,120 million would be available if needs exceeded that projection.

Option II: Coastal State Impact Aid and Production Shares

Description

In addition to the impact grants of Option I a, this option includes payment to Coastal States of 5 percent of the value of OCS oil and gas which is brought onshore within their boundaries.

- the 5 percent share of the value of oil and gas would be approximately equal to 37 1/2 percent of the minimum allowable OCS royalty; thus setting production shares at 5 percent would assure that those shares never constituted a higher proportion of Federal OCS revenues than the proportion of leasing revenues currently paid to States for onshore minerals

- basing the payment on the value of oil and gas rather than on the Federal royalty income itself is intended to prevent the level of royalties from becoming a political issue, and retain needed flexibility in financial terms for leases

- the base for figuring the 5 percent payments could be limited, if desired, to "new oil" only, or to production above the level of a base period, say 1974

Program Effects

Favorable:

- the 5 percent production share adds to the front-end program of Option I a continuing source of funds for the effects of bringing OCS oil ashore

- making payments dependent on taking oil ashore would give the States an increased stake in OCS development off their shores, while it still targets payments on the areas which would feel impacts

Unfavorable:

- like Option I, this Option is subject to the objection that revenues from a National resource would be distributed only to selected States

- outlays under this Option would be substantially greater than under Option I

Budget Outlays

This Option would add to the costs of Option Ia an amount equal to 5 percent of the value of oil produced, or between $240 million and $834 million per year over the years 1975 to 1985. The total amount shared would reach $1112 million per year by the end of the period

Option III: Coastal State Production Shares plus Nationally Shared Revenues

Description

This Option would combine the 5 percent Coastal State production shares of Option II with an additional sharing of Federal OCS revenues with all States.

- the additional National sharing would be 37 1/2 percent of all Federal OCS revenues minus the 5 percent Coastal State production share. Thus, total revenues shared in the two parts of the program would amount to 37 1/2 percent of all Federal OCS revenues, the same proportion that is now shared with States in onshore leasing programs

- the National shares could be distributed among States on a per capita basis, or by the General Revenue Sharing formula. The per capita basis emphasizes the idea that OCS reserves belong to all citizens, while the General Revenue Sharing formula makes use of an existing method for distributing Federal funds to States, although that method could itself become a source of controversy in the future

Program Effects

Favorable:

- this Option would extend a direct financial stake in OCS leasing and production to inland as well as Coastal States

- it would provide some front-end money to Coastal States through their National share, which would become available to them well before the 5 percent payments started as oil was brought onshore

- shared revenues would be of maximum value to States since they would not be tied to any particular use and could be applied as States saw fit

- the Option would feature a set of sharing formulas which, once established, would be relatively easy to administer

Unfavorable:

- it would use a substantial amount of Federal funds, perhaps more than strictly necessary to encourage prompt OCS development

- it would not recognize any special front-end money needs of OCS-affected Coastal States, but would give them only the same National share as other States until their 5 percent production share became available

- it would not require that money shared with Coastal States be used by them to ameliorate impacts, which could work against the Federal interest in smooth development both on and offshore and might not satisfy the impact concerns of some particular groups who could still delay leasing

- it would result in a variable, and to a degree, unpredictable flow of funds to States, since OCS bonus revenues fluctuate considerably from sale to sale, though by averaging over more than one year this problem can be eliminated

Budget Outlays

This Option would distribute 37 1/2 percent of all Federal OCS revenues to States, or between \$530 million and \$2717 million per year over the period 1975 to 1985. The 5 percent Coastal production share of this total would be \$240 million to \$834 million per year. The remainder to be distributed among all States would amount to between \$106 million and \$2344 million per year.

Option IV: Coastal State Production Shares, Nationally Shared Revenues, and Nationwide Energy Impact Aid

Description

This Option combines the 5 percent production shares and the 37 1/2 percent nationally shared revenues of Option III with a program of impact aid like that in Option I but available to all States to meet the front-end costs of energy development, both off and onshore.

- the total amount paid out would equal 37 1/2 percent of OCS revenues, as in Option III, but this sum would be divided three ways: 5 percent of the value of the oil to Coastal States, up to \$500 million (or a like amount) for a nationwide impact grant fund, and the remainder of the 37 1/2 percent for National per capita or General Revenue Sharing distribution

- front-end grants would be available to all States on a project or formula basis for all types of energy-related impacts

- grants could be limited to needs not met by existing Federal grant programs

Program Effects

Favorable:

- this Option has the advantages of Option III, plus the beneficial effects of impact-related front-end money for all States

- it would treat all energy-related impacts consistently, without singling out OCS impacts for special consideration

- it would use OCS revenues, which are substantial, to ameliorate energy impacts inland where needs may also be significant

- it permits taking advantage of the good features of both project assistance and no-strings-attached revenue sharing

- it addresses expressed concerns of Western States about front-end energy development costs, and encourages them to undertake energy developments of National interest

Unfavorable:

- the timing of the flow of OCS revenues into the nationwide impact aid fund would bear no necessary relationship to the demands on that fund from inland energy development activities

- the impact aid fund would have the same administrative problems as the fund in Option I, but on a larger, nationwide scale

- combining all three elements in one proposal may make it too complex to be appealing

Budget Outlays

The total amount to be shared with States would be identical to Option III. The only difference would be that some percent of Federal revenues, perhaps up to a ceiling such as $500 million per year, would be earmarked for States experiencing energy development impacts. An impact fund of 10 percent of Federal revenue up to $500 million per year would leave between $0 and $1844 million per year for nationally shared revenues.

Table 1

PROJECTIONS OF OCS PRODUCTION, VALUE AND FEDERAL REVENUES

Year	Oil Production (millions of barrels)	Value of Oil Production (millions of dollars)	Federal Revenues (millions of dollars)		
			Bonus	Royalty (16-2/3%)	Total
1975	447	$ 4,792	$6,000	799	$6,799
1976	476	5,103	6,000	851	6,851
1977	506	5,424	6,000	904	6,904
1978	601	6,443	6,000	1,074	7,074
1979	696	7,461	6,000	1,244	7,244
1980	791	8,480	-	1,413	1,413
1981	944	10,120	-	1,687	1,687
1982	1,097	11,760	-	1,960	1,960
1983	1,250	13,400	-	2,234	2,234
1984	1,403	15,040	-	2,507	2,507
1985	1,557	16,691	-	2,782	2,782

Assumptions:

1. Production at levels corresponding to Project Independence Report.

2. Oil priced at $8 per barrel and gas priced at $0.70 per thousand cubic feet, giving a total value 1.34 times the value of oil production.

3. 16-2/3 percent royalty collected on all production from Federal OCS lands.

Table 2

SUMMARY OF PAYMENTS TO STATES UNDER FOUR OPTIONS
(millions of dollars)

	Option Ia	Option II			Option III			Option IV			
ear	Coastal State Impact Aid	Coastal State Impact Aid	Production Shares	Total	Production Shares	National Shares	Total	Production Shares	Nationwide Energy Impact Aid	National Shares	Total
975	680	680	240	920	240	2310	2550	240	500	1810	2550
976	685	685	255	940	255	2314	2569	255	500	1814	2569
977	690	690	271	961	271	2318	2589	271	500	1818	2589
978	707	707	322	1029	322	2331	2653	322	500	1831	2653
979	724	724	373	1097	373	2344	2717	373	500	1844	2717
980	141	141	424	565	424	106	530	424	106	--	530
981	169	169	506	675	506	127	633	506	127	--	633
982	196	196	588	784	588	147	735	588	147	--	735
983	223	223	670	893	670	168	838	670	168	--	838
984	251	251	752	1003	752	188	940	752	188	--	940
985	278	278	834	1112	834	209	1043	834	209	--	1043

efinition of options:

ption Ia -- Coastal State Impact Aid at 10 percent of Federal OCS revenues.

ption II -- Coastal State Impact Aid at 10 percent of Federal OCS revenues.
-- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.

ption III -- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.
-- National Shares to all States equal to 37.5 percent of OCS revenues less 5 percent of the value of oil landed.

ption IV -- Coastal State Production Shares equal to 5 percent of the value of oil landed in each State.
-- Nationwide Energy Impact Aid equal to 10% of OCS revenues not to exceed $500 million per year.
-- National Shares to all States equal to 37.5 percent of OCS revenues less 5 percent of the value of oil landed and less 10% of OCS revenues not to exceed $500 million per year (no negative payments to States).

Table 3

SUMMARY OF PAYMENTS UNDER VARIANTS OF OPTION I

	Option Ia	Option Ib*	Option Ic*
1975	680	--	--
1976	685	--	--
1977	690	--	--
1978	707	50	50
1979	724	50	50
1980	141	100	100
1981	169	100	100
1982	196	100	100
1983	223	100	100
1984	251	100	100
1985	278		

*Note: Payments for Options Ib and Ic are limited to OMB projection of $600 million in expected impacts. Option Ib would have $600 million available whereas Option IIb would have a total of $1120 million.

Table 4

SUMMARY OF STATES' AND FEDERAL
SHARES UNDER FOUR OPTIONS
(millions of dollars)

		OPTION I		OPTION II		OPTIONS III & IV	
Year	Total Federal OCS Revenues	States' Share	Federal Share	States' Share	Federal Share	States' Share	Federal Share
1975	6799	680	6119	920	5879	2550	4249
1976	6851	685	6166	940	5911	2569	4282
1977	6904	690	6214	961	5943	2589	4315
1978	7074	707	6367	1029	6045	2653	4421
1979	7244	724	6520	1097	6147	2717	4527
1980	1413	141	1272	565	848	530	883
1981	1687	169	1518	675	1012	633	1054
1982	1960	196	1764	784	1176	735	1225
1983	2234	223	2011	893	1341	838	1396
1984	2507	251	2256	1003	1504	940	1567
1985	2782	278	2504	1112	1607	1043	1739

Table 5

REGIONAL DISTRIBUTION OF
PRODUCTION SHARE
(millions of dollars)

Total OCS Production

Year	Total	Gulf of Mexico	Pacific	Alaska	Atlantic
1974	224	215	9	0	0
1975	240	226	14	0	0
1976	255	235	20	0	0
1977	271	247	24	0	0
1978	325	267	48	0	10
1979	373	287	67	0	19
1980	419	305	89	0	25
1981	505	334	116	15	40
1982	589	359	147	24	59
1983	670	382	174	40	74
1984	752	406	203	53	90
1985	844	434	234	67	109

OCS Production Above 1974 Levels Only

Year	Total	Gulf of Mexico	Pacific	Alaska	Atlantic
1974	0	0	0	0	0
1975	16	11	5	0	0
1976	31	20	11	0	0
1977	47	32	15	0	0
1978	101	52	39	0	10
1979	149	72	58	0	19
1980	195	90	80	0	25
1981	281	119	107	15	40
1982	365	144	138	24	59
1983	446	167	165	40	74
1984	528	191	194	53	90
1985	620	219	225	67	109

Table 6

DISTRIBUTION OF NATIONAL REVENUE SHARES
BY STATES (OPTION III)
1975

State	Share by Population (percent)	Amount by Population (millions of dollars)	Share by General Revenue Sharing (percent)	Amount by General Revenue Sharing (millions of dollars)
Alabama	1.686	39.058	1.601	37.084
Alaska	0.157	3.642	0.144	3.332
Arizona	0.981	22.713	1.020	23.634
Arkansas	0.971	22.481	1.039	24.063
California	9.817	227.361	10.355	239.833
Colorado	1.161	26.896	1.084	25.099
Connecticut	1.466	33.948	1.346	31.176
Delaware	0.274	6.357	0.302	6.997
D.C.	0.355	8.233	0.422	9.772
Florida	3.659	84.738	3.134	72.587
Georgia	2.281	52.820	2.087	48.336
Hawaii	0.396	9.182	0.437	10.115
Idaho	0.367	8.498	0.395	9.157
Illinois	5.354	124.005	5.079	117.632
Indiana	2.533	58.670	2.033	47.090
Iowa	1.384	32.050	1.324	30.666
Kansas	1.086	25.152	0.922	21.350
Kentucky	1.593	36.884	1.627	37.680
Louisiana	1.794	41.541	2.166	50.157
Maine	0.490	11.345	0.634	14.685
Maryland	1.939	44.918	1.987	46.013
Massachusetts	2.772	64.210	3.256	75.420
Michigan	4.310	99.813	4.203	97.337
Minnesota	1.857	43.009	2.096	48.535
Mississippi	1.087	25.174	1.470	34.045
Missouri	2.267	52.500	1.923	44.538

Table 6
(continued)

DISTRIBUTION OF NATIONAL REVENUE SHARES
BY STATES (OPTION III)
1975

State	Share by Population (percent)	Amount by Population (millions of dollars)	Share by General Revenue Sharing (percent)	Amount by General Revenue Sharing (millions of dollars)
Montana	0.344	7.957	0.369	8.535
Nebraska	0.735	17.018	0.668	15.464
Nevada	0.261	6.048	0.231	5.353
New Hampshire	0.377	8.730	0.315	7.291
New Jersey	3.508	81.239	3.133	72.549
New Mexico	0.527	12.206	0.628	14.537
New York	8.704	201.580	11.340	262.641
North Carolina	2.513	58.195	2.432	56.318
North Dakota	0.305	7.063	0.306	7.083
Ohio	5.114	118.432	4.082	94.542
Oklahoma	1.269	29.390	1.106	25.609
Oregon	1.060	24.556	1.052	24.357
Pennsylvania	5.672	131.355	5.321	123.233
Rhode Island	0.464	10.738	0.433	10.032
South Carolina	1.299	30.085	1.407	32.587
South Dakota	0.326	7.560	0.400	9.255
Tennessee	1.966	45.536	1.861	43.093
Texas	5.620	130.164	4.853	112.403
Utah	0.551	12.769	0.590	13.664
Vermont	0.221	5.121	0.309	7.145
Virginia	2.293	53.096	2.015	46.663
Washington	1.634	37.844	1.458	33.764
West Virginia	0.855	19.799	0.905	20.966
Wisconsin	2.177	50.425	2.545	58.934
Wyoming	0.168	3.896	0.158	3.656